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NEW ZEALAND CROWN COMPANY BOARDS:
DIRECTOR PERCEPTIONS OF
SELECTION PROCESSES,
BOARD COMPOSITION,
DIRECTOR ATTRIBUTES
AND DIVERSITY

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August 2010
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Julia Georgina Quince

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DEDICATION

I dedicate this thesis to my father, George, and my late husband, John. I was blessed in their love.

To my mother, Hilda - thank you for strength and determination.
ABSTRACT

This research focuses on the governance of New Zealand Crown Company Boards. In-depth interviews were carried out with 23 Crown directors and 20 specialist commentators to ascertain their perceptions of board selection processes, board composition and director attributes required for the governance role, with particular consideration given to diversity.

Content analysis of transcribed interview data allowed for a qualitative exploration of insights as well as some calculations to augment and quantify the weighting of opinion. The research found, in the views of directors and specialist commentators, boards should be comprised of directors who already possess a range of financial and other ‘hard’ business skills. Comments on the need for business skills heavily out-weighed discussion of soft skills and ethics. Respondents believed directors should be appointed on merit, based on their record in business and related fields, rather than on a broader set of criteria that might encourage greater consideration of board diversity. The study found directors also perceive governance training should be undertaken to ensure skills remain current.

It was noted that there is an inevitable political overlay within the New Zealand Crown Company structure, which limits transparency. The study concluded that the current approach to appointments is likely to result in a restricted pool of directors, which in turn limits diversity and with it the potential of achieving an optimal mix of relevant knowledge and skills. Further, current training mechanisms do not support the opportunities for new directors to embark on directorships.

The research recommends that the Crown Ownership Monitoring Unit expand the current emphasis on recruiting for commercial and business expertise to include targeted recruitment of candidates from non-traditional sources/communities, thus genuinely enhancing diversity and building board capability. The research also recommends that this initiative be supported by a Director Internship scheme whereby unproven or inexperienced candidates from non-traditional career and cultural backgrounds, are encouraged to apply for positions on Crown Company boards and that COMU works with governance training organisations to provide targeted training and ongoing mentoring support throughout the internship.
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CHAPTER 1: INTRODUCTION

1.1 Introduction

This study investigates board selection processes, board composition and director attributes, drawing on perspectives of New Zealand Crown Company directors and other specialist commentators. In so doing, it provides an insight into a key area of governance – the governance of public organisations. While the New Zealand location provides for a distinct social and legislative environment, the challenges of governance reflected in the findings may have ramifications for both the public and private sectors in New Zealand and internationally. Thus, the study attempts to contribute to the conversation relating to boards, board membership and governance.

The research is informed by established New Zealand and overseas governance practices and an evolving research tradition that spans the globe. Worldwide, governance impacts on the current and future viability of organisations. Whilst companies have a management structure charged with setting strategic direction and organising the day-to-day operations, it is the board of directors – the governance entity – that informs and approves the strategic direction and the way in which management executes its role. Hence, the business competencies and the personal attributes of board members, along with their ability to work together productively in the interests of the organisation, are of fundamental importance. Of importance too are the relationships between the board members and management.

This chapter provides background to the broad domain of the research – governance – and provides some contextual information regarding New Zealand Crown Companies. It then briefly introduces some key areas of scholarship regarding board composition, presents the research question and, lastly, provides an overview of the thesis structure.

1.2 Governance: Some Central Themes

A claim that the field of corporate governance is at a crossroads between what we know about the field and what we do not (Daily, Dalton & Cannella, 2003) recognises the early development of governance as a formal research field. This recognition also
tacitly acknowledges the disparity among researchers, policy-makers and practitioners as to what governance is and how it can best be defined.

Definitions of governance variously stress aspects of direction and control (Farrar, 2001), relationships among stakeholders (e.g. Wheelen & Hunger, 2002) and standards and accountability (Farrar, 2001). Accountability relates to how the organisation conducts its business, including responsible allocation of resources and the professionalism of board members and company staff. Several of these themes are present in Daily et al.’s (2003) characterisation of governance as: “the determination of broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad of participants in organizations” (Daily et al., 2003, p. 371).

A key notion underlying the idea of conflict resolution highlighted in this description is that of power, a theme emphasised in several explanations of governance, often alongside a range of other characteristics (e.g. Arensman, 2002; Berle & Means, 1932/1991; Bosch, 1996; Commonwealth Association for Corporate Governance, 1999). Indeed, Pound (1993) suggests that governance is primarily about power, control and effective decision-making, thus introducing yet another dimension.

The idea of what constitutes governance will be further developed in later chapters. At this point, however, we should acknowledge major themes that emerge from the governance literature including: effective resource allocation, the centrality of stakeholders, the importance of positively managing an array of relationships, the extent and effectiveness of decision making, issues of accountability, and issues of power. These themes have lately merged around the issue of corporate ethics.

Recent conduct of some company directors outside New Zealand has commanded media attention worldwide. The Enron (2001) and WorldCom (2002) scandals were catalysts for renewed vigor in the debates surrounding the roles and responsibilities of CEOs and board members. These catastrophic examples of unethical practice, of director incompetence, and of board collaboration, ignorance or impotence, have forced managers, directors and management researchers to once again reflect on what companies really need from board members.
Less widespread in impact, but of considerable moment for a New Zealand audience, are local examples of questionable governance practices. Many of these date back to the 1980s and involved executives of companies which figured in the stock market crash of 1987. Such companies include: Equiticorp, involved in investment and merchant banking (Morris, 1996); Chase Corporation “synonymous with glittering high rise commercial development” (Taylor, 1997, p. G2); and Pacer Pacific, originally in bloodstock then merged with Kerridge Odeon to become Pacer Kerridge Corporation (McNabb, 1995, p. 11). In the wake of these business failures, legislative changes have been implemented in an attempt to constrain and guide the behaviour of board members. However, the business news is still from time to time punctuated by accusations of serious and/or notable breaches of trust. Widespread media attention was given to the 2006-7 high-profile case of Faye-Richwhite and Midavia Rail Investments Ltd (Toll Holdings) accused of insider trading (Securities Commission, 2007). More recently controversy flared over the collapse of Hanover Finance with speculation that the principals had tried to insulate themselves from its impending demise by withdrawing dividends from the company (Big boys stand to lose millions, 2008).

Of particular relevance to this research, however, may be the widely reported 2005 clash between the board of Crown-Owned Company Television New Zealand (TVNZ) and its CEO Ian Fraser (TVNZ, 2006). This case is of interest as it exposed to the New Zealand public the tensions between the board and the management of a Crown Company. The public was witness to the struggle for dominance as the CEO resigned, claiming political and board interference in the day to day operation of the company. The board attempted to discipline Fraser for comments made in a select committee. At issue, ostensibly, were the limits to the roles and responsibilities of each party. In this battle, the contestability of boundaries, and the highly political nature of organisational dynamics were apparent. Overlaid with this struggle was the spectre of political pressure from central government, through the government appointees on the board.

The TVNZ example helps illustrate some of the unique features of a New Zealand Crown Company. In particular, at the heart of the controversy was the relationship between the board and CEO, and the consequent commercial impact. The CEO accused the board of interference in a remuneration decision that he argued was the concern only of management and the employee, despite the fact that the salary had been widely
criticised in Parliament. The Television New Zealand Act 2003 charges the entity with meeting the obligations of its public service broadcasting Charter “while maintaining its commercial performance” (s. 12(2)). Fraser’s view was that the large salary for the presenter was justified on commercial grounds. However, board chair, Craig Boyce, argued that the board was required to approve high level salaries and because the commercial performance of TVNZ was an important focus of this Crown-Owned Company, remuneration was a required component of Board oversight (Trevett, 2005).

As well as illustrating the tensions between board and management in a political milieu, this example shows the multi-legislative environment in which New Zealand Companies operate. The following section identifies the key statutes and legislative parameters for governance of New Zealand Crown Companies.

1.3 New Zealand Crown Companies and CCMAU

Crown Companies are: “limited liability companies established under, and subject to, the Companies Act 1993. They are categorised as State Owned Enterprises, Crown Research Institutes, or Crown Owned Companies” (CCMAU, 2002, June, p. 2). In addition to the Companies Act 1993, however, “each [Crown] company also operates under a statute which is either specific to that company or to a certain type of company” (CCMAU, 2002, June, p. 6).

The first of the Crown Company types mentioned above is the State Owned Enterprise (SOE). All SOEs must comply with the State Owned Enterprises Act 1986. New Zealand SOEs cover various sectors including energy, agri-business, land management, and infrastructure companies. Specifically, these companies (according to CCMAU at the time interviews were conducted, 2003/2004) were:

- AgriQuality New Zealand Ltd
- Airways Corporation of New Zealand Ltd
- Asure New Zealand Ltd
- Genesis Power Ltd
- Landcorp Farming Ltd
- Meridian Energy Ltd
• the Meteorological Service of New Zealand Ltd
• Mighty River Power Ltd
• New Zealand Post Ltd
• New Zealand Railways Corporation
• Solid Energy New Zealand Ltd
• Timberlands West Coast Ltd
• Transpower New Zealand Ltd

Crown-Owned Companies (CROCs) have a mix of social, cultural, public and commercial goals but are not State owned as such. Like SOEs, CROCs are bound by the Companies Act 1993 but are generally created under specific legislation pertaining to their unique objectives. In this group were:
• Animal Control Products Ltd
• Christchurch International Airport Ltd
• Dunedin Airport Ltd
• Invercargill Airport Ltd
• Learning Media Ltd
• New Zealand Venture Investment Fund Ltd
• Quotable Value New Zealand Ltd
• Radio New Zealand Ltd
• Television New Zealand Ltd

Another type of Crown Company is the Crown Research Institute (CRI). CRIs were established in 1992 to make a more formal structure of the scientific and research sectors of government departments. Institutes operate in accordance with the Crown Research Institutes Act 1992 which has a focus on financial responsibility as well as appropriate research focus and practice (CCMAU, 2002, June, p. 9). These companies also comply with the Crown Entities Act 2004. At the time of the interviews there were nine CRIs:
• AgResearch Ltd (AgResearch)
• Industrial Research Ltd (IRL)
• Institute of Environmental Science & Research Ltd (ESR)
• Institute of Geological & Nuclear Sciences Ltd (GNS)
In addition, the definition of Crown Companies incorporates Crown Entities, which include the New Zealand Lotteries Commission and the Public Trust Office. Although not formal companies, Crown Entities do have a formal governance structure set down in the Crown Entities Act 2004. The Reserve Bank of New Zealand is also technically a Crown Entity, although it does not fall within the purview of the Crown Entities Act 2004.

The Crown Company Monitoring Advisory Unit (CCMAU) is the mechanism by which the Government is able to track its investment in Crown Companies, and ensure that they are commercially viable. CCMAU was established in 1993 to provide advice and reports to the Government in the areas of monitoring, ownership, ministerial servicing and governance. The Government has two Ministers responsible for each company: the Finance Minister and one other (CCMAU, 2002, June, p. 2). Each Crown Company has a board accountable to Government (via the Shareholding Minister) and the New Zealand public. Each must also comply with the Companies Act 1993 and related legislation.

1.3.1 CCMAU / COMU

Over the period of the study and up until November 23, 2009, CCMAU (Crown Company Monitoring Advisory Unit) was the entity that monitored New Zealand Crown companies. In November 2009 CCMAU was restructured into COMU, the Crown Ownership Monitoring Unit. In keeping with the original timing of data collection, the terminology used in interview questions and responses from participants, and the very recent transition, CCMAU is the entity referred to through most of the thesis.
1.4 New Zealand Companies Act and Associated Legislation

As mentioned, companies monitored by CCMAU comply with the Companies Act 1993, the legislation that covers all New Zealand companies, including those in the private sector which are not liable under the State Sector Act 1988. In addition, other legislation pertaining solely to Crown Companies includes the State-Owned Enterprises Act 1986, Crown Entities Act 2004 and Crown Research Institutes Act 1992.


Much legislation can apply to companies, but precedence is given to the specific legislation for Crown Companies (such as the State-Owned Enterprises Act 1986, Crown Entities Act 2004, and Crown Research Institutes Act 1992). In cases where there is discrepancy between the legislation for a specific Crown Entity and the Crown Entities Act 2004, the Act states: “This Act applies to a Crown entity, and prevails over the entity’s Act, except to the extent that the entity’s Act expressly provides otherwise” (Part 1, s. 4 (2)).

The Companies Act covers appointment of directors, their duties and powers (s. 131-138), how directors should be appointed (s. 150-159), as well as formal methods of incorporation (Part II), and disclosure (Part XII). Boswell (1999) points out: “The Companies Act does not require directors to have any formal, technical or professional qualifications or to belong to any institute or group” (p. 67). Boswell also points out that, “The Companies Act imposes a number of general and specific duties on directors. One of the general duties is a fiduciary duty to act in good faith and in what the directors believe to be the best interests of the company” (p. 69). This imparts elements of responsibility and accountability rather than providing set procedures for directors to follow. The extent to which a sense of responsibility is present, and the way it is enacted, will depend on the ethical beliefs of individual board members, and their personal behaviour and influence. Thus, there is reliance on the moral character,
knowledge and experience of individuals, none of which can be fully prescribed. This means that shareholders, the CEO, fellow directors and, if relevant, the nominating committee, must have confidence in the appointment process to ensure that the potential director has a sense of corporate responsibility and business ethics, and would be mindful of fiduciary duty with respect to the role of director and the best interests of the company. Such confidence in the calibre of appointees ultimately will be crucial to the Shareholding Minister responsible for approving Crown Company director appointments.

However, it should not be assumed that the selection process takes place in the absence of legislative direction, or that directors totally lack guidance in their roles. In particular, Part VIII, Directors and their Powers and Duties in the Companies Act 1993, provides definitions of directors and board (ss. 126-127). The Companies Act 1993 also has subsections which cover the powers of management (ss. 128-130), directors’ duties (ss. 131-138), transactions involving self-interest (ss. 139-149), appointment and removal of directors (ss. 150-159), and miscellaneous provisions relating to directors (ss. 160-162). In these 36 sections there are specific and explicit details about what directors must do. This section somewhat counter-balances the latitude in director appointments whereby neither formal qualifications nor formal competence tests are required.

1.5 Board Composition

1.5.1 Legislation
In addition to the Companies Act 1993, a variety of New Zealand legislation impacts on how all organisations operate and refers to issues surrounding director selection and appointment processes and equity in treatment of people, including access to board representation. Regardless of whether the Act makes direct reference to governance or not, the fact that certain key legislation relates to public sector companies in New Zealand means the legislation must be observed. Further, as the Government is inextricably linked to Crown Companies, this observance should be transparent. Such legislation includes the New Zealand Bill of Rights Act 1990, the Employment Contracts Act 1991, the Human Rights Act 1993 and the State-Owned Enterprises Act.
1986. Other legislation compelling organisations to make appointments with regard to diversity, includes the State Sector Act 1988 and the Employment Equity Act 1990.

In Section 58 of the State Sector Act 1988, public companies have to ensure that there is no inequality “in respect to the employment of any persons or group of persons” (s. 58 (3)). This is compatible with current (stated) New Zealand Government practice in regard to Crown Company appointments.

The Employment Equity Act 1990 outlines, in Section 28, the obligations of employers with regard to equal employment opportunities. While this is not a direct reference to governance, public sector companies in New Zealand must comply with the legislation and internal appointees, and therefore, possibly executive board appointees, must be similarly cognisant of the legislation.

Section 19 (1) of the New Zealand Bill of Rights Act 1990 states that everyone has the right to freedom from discrimination and includes reference to colour, race, ethnic or national origins, and sex – categories that can be associated with judicious director selection.

In the Employments Contracts Act 1991 there is provision in Section 7 that there should not be any aspect of employment that could indicate preference in appointments (s. 7, (a), (b)). Again, this is not a direct reference to governance, but indicates those involved in director selecting and appointments should be cognisant of the impact and interpretation of this legislation.

In terms of the Human Rights Act 1993, there are specific guidelines in respect of discrimination (Section 21) and measures to ensure equality (Section 73). This is legislation that prevails in New Zealand. It is legislation that public sector organisations must comply with and will indirectly affect the way in which director selection is undertaken.

The State-Owned Enterprises Act 1986 in Section 2 describes a board, a company and Ministers (s. 2, (a), (b)). Section 4 (2) details what a good employer is, with specific reference to an equal opportunities employment programme (b) and “the impartial
selection of suitably qualified person for appointment” (c), and Section 5 covers directors and their role. However, it is Section 4 that has the greatest impact on the issue of director selection and the focus on public sector companies.

The Crown Entities Act outlines the establishment and governance of Crown entities in Part 2 with specific references to the role and accountability of members (ss. 25-27) and with extensive reference to appointment, removal, and conditions of members (ss. 28-72). The Crown Research Institutes Act 1992 is similarly specific about the role of directors (part 1, s. 7) and the requisite expertise of these directors.

Changes to legal compliance issues have been made over the last two decades with the intent of making board members in New Zealand and other countries more attentive to certain aspects of their role. The Commonwealth Association for Corporate Governance (CACG), established in 1998 with the support of the New Zealand Government, publishes guiding principles for corporate governance in the Commonwealth. The second principle of the CACG guidelines states:

The board should ensure that through a managed and effective process board appointments are made that provide a mix of proficient directors, each of whom is able to add value and to bring independent judgment to bear on the decision-making process. (1999, p. 8)

According to the CACG, the “mix” is achieved by good selection processes, no “cronyism” or “tokenism”, and a concern to have the skills required for the core business (1999, p. 8). This principle itself provides context and justification for a detailed focus on director selection such as that undertaken here. Further, and consistent with the CACG sentiments, the New Zealand Government has long been concerned “that the diversity of the community be reflected in the boards that govern the management of its assets without compromising the high standard of commercial performance that is required of the State-Owned Enterprises and CRIs” (Wheeler, 2001, p. 6).

1.5.2 Ethnic Diversity and the Tangata Whenua
The requirement for greater ethnic diversity on boards of directors is made more urgent by the rapidly changing demographics of New Zealand. The population is growing
increasingly diverse, with considerable growth in the Māori, Asian and Pacific peoples since the beginning of the 21st century. Further, it is estimated these ethnic groups will continue to grow at a far faster rate than the European population; so that while European people currently make up 77 percent of New Zealanders, this will fall to 69 percent in 2026. While demographics is not an exclusive argument for diversity (Jones, Pringle & Shepherd, 2000), it is a compelling one which is not solely about ‘quotas’ or token representation on boards. It may also require changes in approach to handling governance issues and meeting protocols – change that is not formulaic or easy.

One diversity issue pertinent to New Zealand boards of directors is that of representation of Māori. The Māori population as Tangata Whenua (indigenous people), require and demand specific consideration and accommodation in all practices, including those relating to governance (Jones, Pringle & Shepherd, 2000, p. 365). More than one in seven (14.7 percent) of the New Zealand population identify as Māori (Statistics New Zealand, 2006 Census). However, representation of Māori and a Māori perspective particularly significant because of the Treaty of Waitangi, the founding document of New Zealand (Palmer, 2001). This agreement between Māori and the Crown, signed in 1840, has a continued impact, principally since the State-Owned Enterprise Act 1986 incorporated a reference to the Treaty. Since then, more than 40 statutes have referred to the principles of the Treaty, with its implications of partnership.

While the evidence as to whether New Zealand boards are indeed becoming more diverse is still equivocal (e.g. McGregor, 2003), internationally there are claims that some progress has been made. A North American study, for example, suggests that “director profiles have shifted toward the inclusion of members whose gender and race are different from the traditional white male director” (Hillman, Cannella Jr. & Harris, 2002, p. 747). A recent New Zealand study of 59 listed companies explored board diversity in terms of performance as opposed to looking at the current diversity mix on New Zealand boards (van de Walt, Ingley, Shergill & Townsend, 2006). A more recent study of 1400 New Zealand organisations from the SME sector found:

the existing pool is both small and limited in scope. The average age of directors is around 50 and there's little evidence they believe in expanding the diversity of their make-up. Though both age diversity and global expertise
showed up as desirable traits, the need for gender diversity didn't show up as an issue. (Jayne, 2007, p. 34)

Interestingly, a handbook for directors, executives and advisers published by the Securities Commission of New Zealand in 2004 has a section on board composition and performance but makes no specific reference to either gender or ethnicity. The focus is more on independence, skills and evaluation processes.

Overall, there has been some work in New Zealand relating to board composition and director attributes, but the body of research is not substantial and thus is a potentially fruitful area of enquiry.

1.5.3 Gender Diversity
Worldwide, the representation of women at high organisational levels has had somewhat more attention than that of other forms of diversity, and there is some evidence that progress is being made in terms of governance. For example, in a report from the U.S., Daily, Certo and Dalton (1999) found that, “with respect to most aspects of board of director representation, there is obvious progress for women in the last decade” (p. 96, my italics). However a later report by the same authors analysed two studies they had undertaken regarding whether women had made progress in assuming directorships and concluded that in essence, they had not (Daily, Certo & Dalton, 2000). No firm conclusions are drawn as to why this was the case although they note a reduction of inside directors is part of a trend which impacts on female director appointments, and that those appointed often held multiple directorships.

Within New Zealand, CCMAU has been described as “aggressively proactive in striving for a balance of skills on boards and searches for women candidates who have commercial abilities” (Shilton, McGregor & Tremaine, 1996, p. 23). While women have for generations been lobbying government for a greater involvement in all aspects of public life, the recent formal driver for gender diversity on New Zealand boards was the first woman Prime Minister in New Zealand, Jenny Shipley, who had a vision of achieving a balanced representation of men and women directors on Crown Company boards by the year 2000. By 2002 the target 50 percent had not been reached (women then representing approximately 35 percent of Crown Company directors), prompting
McGregor to draw attention to the need for New Zealand statute to reflect New Zealand’s “international obligation to report periodically to the United Nations Committee on the Elimination of all Forms of Discrimination Against Women (CEDAW) against audited outcomes” (2002, p. 14). McGregor went on to call for more research “to monitor women’s progress in the less visible sector in New Zealand, the private sector” (p. 16). In June 2006, fewer than 30 percent of New Zealand Crown Company directors were women (CCMAU, n.d.). While this apparent decline is not a positive sign of more equitable gender distribution, it should be acknowledged that the level of women’s representation on boards varies due to normal, cyclical turnover, availability and government preference.

However, the *New Zealand Census of Women’s Participation 2006* contends that any progress towards achieving the 50 percent representation is “glacial” (McGregor & Fountaine, 2006, p. 1). While there is some indication that New Zealand has initiatives in place to help promote the appointment of women to corporate boards, as at 1 November 2007 CCMAU recorded a total of 33.5 percent of female directors with the ethnicity spanning European, Māori and Pacific Island women (CCMAU, n.d.).

1.6 Need for More Research

It could be argued that research in any aspect of governance will make a contribution because the current pool of such information is still relatively small. Nevertheless, there have been a significant number of studies on women’s representation on boards, and many of these have been represented in a recent publication that highlights international research and practice (Vinnicombe, Singh, Burke, Bilimoria & Huse, 2008). The array of studies include New Zealand-based studies such as those of McGregor (1997, 2000, 2002); Shilton, McGregor and Tremaine (1996); and Hawarden and Stablein (2008). A sample of United Kingdom-based studies include those by Conyon and Mallin (1997); Brammer, Millington and Pavelin (2009), and Sealy, Vinnicombe and Singh (2008). The Scandinavian situation for women on boards has been explored by researchers such as Farrell and Hersch (2005); Huse and Solberg (2006); and Hoel (2008). Closer to home, Australian studies of women on boards include those by Sheridan (2001, 2002), Sheridan and Milgate (2003); Burgess and Tharenou (2002); and Burke (1994), who has continued to write on this matter, particularly with a US/Canadian focus. In the USA,
significant studies into women on boards include those by Mattis (2000); Adams and Flyn (2005); and Bilimoria (2000). However, fewer studies have looked at such aspects of diversity as ethnicity and age, with a number of exceptions (e.g. Brammer, Millington & Pavelin, 2009); Jones, Pringle & Shepherd, 2000; Korn/Ferry International, 2002; Leighton, 2000; McGregor, 2003; Van der Walt & Ingley, 2003; Westphal & Milton, 2000).

While these studies may be individually and collectively valuable, they are far from comprehensive in their coverage of matters relating to the governance of organisations. This is partly due to a range of issues, including the relatively recent focus on diversity within the boardroom and to the factors that influence different governance situations. In the case of New Zealand Crown Companies, those factors include a distinctive legislative mandate via legislation such as the Companies Act 1993 and Crown Entities Act 2004.

Further, there has been relatively little research on board members’ perceptions of the key attributes needed for successful performance as a board member, where notions of diversity fit into this and the impact of diversity on the boards upon which they have served. In short there is still much to be uncovered about what directors see as the nature and impact of selection processes, board composition and director attributes.

Accordingly, a focus on director selection and diversity is particularly timely. With respect to gender diversity, Burke and Mattis point to the need to:

- develop a theoretical body of work about gender diversity on corporate boards that, in combination with benchmarking activities, will move both scholarly dialogue and the pace of change for women forward. (Burke & Mattis, 2000, p. 5)

These sentiments hold for other underrepresented groups and indeed for all aspects of governance. With a mix of views and no conclusive evidence about director selection and diversity in board composition, the issues remain current and unresolved. In order to influence future behaviours and trends, rapidly changing organisations and evolving boards need to grapple with a range of issues relating to identifying and analysing aspects of director selection. Just as companies revisit their direction, future goals and
strategy for attaining them, so too should boards of directors consider whether traditional board composition is appropriate for the new goals and strategies a company is pursuing. We need more exploration of all aspects of governance to help extend understandings among both scholars and the business community and to assist our boards to be effective governance mechanisms for our companies.

Research on director perceptions of selection processes, board composition, director attributes is contemporary and relevant. A focus on New Zealand Crown Companies is both valuable and timely. Noting the current trends in corporate governance for diverse boards and noting the initiatives by the New Zealand Government to promote appointment of women to boards, it is logical that Crown Companies would be among the first to respond.

1.7 The Research Question

The question guiding this study is:

*What are the major determinants of board selection, composition and attributes in New Zealand Crown Companies, from the perspectives of Crown Company directors and specialist commentators?*

Specifically, the research aims to explore:

- What are the reasons for participation in governance activities?
- What qualities, skills and training are needed for effective board participation?
- What are the board selection procedures in New Zealand Crown Companies?
- What is the impact of diversity on boards?

Accordingly, the context is New Zealand, and the objects of study are the boards of New Zealand Crown Companies. In 2003-2004 interviews were conducted with Crown Company directors from 16 Crown Companies. To gain a more nuanced insight into the research question, interviews were also carried out with 20 specialist commentators including five female directors working in the private sector. The specialist commentators were independent sources chosen for their particular insights into the practice of governance in New Zealand.
1.8 Structure of the Thesis

This introductory chapter has pointed out that New Zealand has a range of Crown Companies which compete nationally and internationally. These are spread geographically throughout the country and are supported by a relatively small population which is becoming more ethnically diverse. Like all New Zealand companies, Crown Companies are obliged to comply with the Companies Act 1993. By law too, Crown Companies must address a number of government initiatives and policies designed to encourage diversity without compromising merit. This chapter outlined some of the key legislation, raised the issue of board composition, specified the research question and provided a context for the ongoing investigation.

Chapter 2 turns the attention to the extant research into governance. It begins by teasing out a definition for governance, and then pays particular attention to issues of board selection, representation and diversity.

Chapter 3 sets out the research design. It outlines the qualitative approach taken, providing insight into the research process and outlining the research protocols.

The research design chapter is followed by Chapter 4, which presents results from the interviews. Chapter 5 draws together the results and central themes identified and explored in Chapter 4. Finally, Chapter 6 summarises the main themes, draws conclusions from the research findings, links those findings to the research question and presents some recommendations.
CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Chapter 1 established that this study is undertaken within the New Zealand environment with a prime focus on boards of New Zealand Crown Companies. The Government of New Zealand has responsibility for Crown Companies, which are operated under the company model and have governance structures similar to those of private companies. These companies are, however, in some ways more similar to public than private companies in that the board of directors is accountable to a greater stakeholder group – the Government and the public of New Zealand who are regarded as major shareholders. Crown Board selection procedures have been broadly outlined in Chapter 1, and are detailed later in this chapter.

As there has been limited research into entities such as the New Zealand Crown Companies, this overview of the literature draws on research into both public and private sector companies. It highlights a range of national and international studies relating to director perceptions of selection processes, board composition and director attributes.

In the light of models of corporate governance research explored by Huse (2005), this research reflects a contingency approach, although in common with most research of this kind, this approach is not applied systematically. Huse characterises such approaches as being concerned with aspects of board composition, competence and characteristics across the board, insider/outsider ratios, measures of diversity, general and specific functional skills of directors and their relational and social skills. The literature review and the research questions that flow from it reflect similar interests described by Huse above. The research itself helps counteract the “major flaw” that Huse identifies in studies influenced by the contingency approach – the concentration on “large US corporations” (p.68).

In particular, Chapter 2 explores a number of themes from the governance and related literatures, including further accounts of the concept of governance; drivers for board participation; directors’ qualities, skills, attributes, experience and specialist knowledge;
board composition; diversity and boards (accenting women’s participation); and director selection processes. This chapter highlights a range of influences on director selection, appointment and training, including director attributes (encompassing skills, experience and values), diversity and politics. Where possible, the chapter draws attention to issues of particular relevance to the New Zealand context of the investigation.

2.2 Governance

2.2.1 Definitions
In the opening chapter, I suggested that we may be at a defining moment in terms of research into corporate governance (Daily, Dalton & Cannella, Jr., 2003), not least demonstrated by the fact that corporate governance is a term with a number of interpretations. These include understandings and research undertakings that relate to corporate governance as managing stakeholder relationships (Wheelen & Hunger, 2002); standard setting and compliance with codes and legislation (e.g. Farrar 2001; Commonwealth Association for Corporate Governance, 1999); effective resource allocation (Hillman, Cannella, Jr. & Paetzold, 2000) and the economics associated with the separation of ownership and control (Berle & Means, 1932/1999), including managing investment capability (Korak-Kakabadse, Kakabadse & Kouzmin, 2001). Other topics central to understandings of governance include aspects of decision making (Forbes & Milliken 1999), accountability (Cadbury, 1999; Langevoort, 2001) and power (Fondas, 2000).

As Huse (2005, p. S69) reminded readers: “Any definition of corporate governance will be biased… and most theories have been efforts to explain existing phenomena from practice”. However, it is usual for definitions of governance to emphasise the mutual importance of internal and external constituencies and, in particular, the idea of relationships, exemplified by Wheelen and Hunger’s (2002) claim that governance is fundamentally about relationships between stakeholders. These relationships – between, for example, the board of directors, management and stakeholders – determine the direction and performance of the organisation (Wheelen & Hunger, 2002). Farrar (2001) also underscores the primacy of stakeholder groups, but places some emphasis on the role of governance in terms of standard setting and accountability: governance is about providing standards for management and the board, and being accountable to the
organisation’s investors. When the government and the public enjoy a controlling interest in the company, it may be reasonable to assume that this will pose particular challenges to effective governance.

In studying governance it is useful to take all of the nuances and perspectives into account, and to acknowledge the legitimacy of each research orientation as a contributor to our greater understanding of governance. However, this study accepts a broad conception of corporate governance – corporate governance as the governing mechanisms for organisations, as distinct from the day to day management of organisations. Tricker (1984) makes this difference clear, explaining that governance “involves setting the corporate direction, involvement in executive action, supervision and accountability” (p. 10). Elaborating on this powerful role, Tricker points out that:

The board of directors, as the group that comprises the governance body seldom appears on the management organization chart: yet it is the ultimate decision making body in a company. The role of management is to run the enterprise; the role of the board is to see that it is being run well and in the right direction. (Tricker, 1998, p. 3)

Further, as Bryan (1995) suggests, the board has:
ulteimate authority over the management, it approves all major decisions; reviews the company’s progress; and continuously advises company management. Thus, the attitudes and environment set by a board of directors have a powerful influence over the direction of a company. (p. 7)

Implicit in this understanding, is the importance of maintaining positive relationships between the board of directors and management, the necessity of having high calibre, knowledgeable directors, and the need for these individuals to work productively as a board. A number of studies, which I will canvass later in this chapter, suggest that board selection and director diversity are factors that impact on the success or otherwise of those relationships and the company, particularly in relation to director versus management rapport, decision-making, competitive advantage and firm performance.
2.2.2 Board Context
Given the crucial strategic roles of boards, however, company directors must take cognisance of many factors, including the contemporary organisational environment, which is global, technologically advanced, and, arguably, more diverse than in previous eras. These factors contribute to a raft of new and emerging issues which boards are required to understand, and about which they need to make decisions affecting the future viability of the company (Burke, 1997b; Garratt, 1999; Grady, 1999; Ingley & van der Walt, 2001; Vinkenburg, Jansen & Koopman, 2000). van der Walt and Ingley (2001) point to the “new skills and approaches” required to effectively govern today’s organisations, claiming that: “No longer is the traditional role of the board sufficiently competent to lead companies into the new millennium” (pp. 315-316). The authors claim that, “not only are boards of directors required to be more accountable to shareholders and stakeholders, they also must bring greater professionalism in the execution of their directorship of the companies they serve” (van der Walt & Ingley, 2001, p. 316). Indeed, it is the significance of the current environment, and the role of Crown Companies within it, that has stimulated the need for an exploration of the processes of board selection and composition.

2.2.3 Pathways and Progressions to Governance
The question as to why individuals might choose to take up a directorship of any company is, on the surface, easy to answer. Arguably, the position is well-paid (Conyon & Gregg, 1994; Liu & Taylor, 2008), and public disclosure is not always required. In Australian and New Zealand companies, the ‘pool’ for director remuneration in relation to CEO remuneration has continued to steadily rise between 2000 and 2007, and predictions are that remuneration will increase due to the reported ‘onerous’ requirements of the director role (Korn/Ferry International, 2008). It has been reported that directors are frequently ‘shoulder-tapped’ (e.g. Harwarden & Stablein, 2008) or that they see a governance role as a natural progression from full-time work into retirement (Daily, Jacobs, & Dalton, 2004). Ghaffari’s (2007) finding that over 40% of women directors have a corporate background, suggest that it is credible to propose that, for women as well as men, a governance role is indeed an accepted option for extending a corporate career.
Other, less instrumental, pathways to board membership have also been noted, such as allegiance to a company that directors had a personal relationship with through family connections (Maclean & Harvey, 2008), and credentials gained through community involvement (Terjesen, Singh & Vinnicombe, 2008). For some, there is also a sense of excitement in being a director (Huse & Solberg, 2006). Although, recently, as companies worldwide are subject to increasing scrutiny and compliance requirements, the decision to accept a position on a board may be less automatic (Korn/Ferry International, 2008).

With respect to gender differences in paths to the boardroom, early research suggested that women directors are chosen, at least in part, because they are women and that they tend to have a community (as distinct from purely business) profile (Mitchell, 1984). More recent findings, however, have indicated that excellent business credentials and advanced education are today crucial considerations for women directors (Burke, 1997a; Burke & Mattis, 2000), although some evidence suggests that women tend to be less economically motivated and “more philanthropically driven” than their male counterparts (Burgess & Tharenou, 2002, p. 42). Sealy, Vinnicombe and Singh (2008) report that 11% United Kingdom FTSE 100 board members are women and just over 11% of directors on ASX Top 100 companies are women (Korn/Ferry International, 2008), a disparity with men that is unsurprising given the gendered nature of all levels of management (Simpson & Lewis, 2007).

Regardless of the motivation for wanting to be a director, it is a role that requires intellectual capacity and some commercial expertise, in appropriate combination across the board, to ensure the organisation remains a viable entity. Directors need a repertoire of qualities and skills to validate and usefully augment their enthusiasm for the task.

### 2.3 Director Attributes

#### 2.3.1 Business Experience

As noted above, one of the key drivers for board participation relates to wishing to share the skills and attributes that individuals have built up during their professional careers. Such individuals regard their experience as a rich portfolio that equips them well for the next level of corporate involvement, perhaps leading to renewed interest and
enthusiasm. Accordingly, business experience appears taken as a ‘given’ (e.g. Bay & Petit, 1998; Burke, 1994; Fich 2005; Holton, 1995; Sheridan, 2001) and there appears to be general consensus that individual directors should possess a range of qualities and skills appropriate and relevant to the nature of the industry, and complementary to the total group of directors on the board. Furthermore, these qualities, skills, attributes and knowledge should synergise to comprise a superior skill-set that ensures appointments to board directorships are based on merit (Hilmer, 1998). Indeed, Hilmer observes that:

Effective board membership requires high levels of intellectual ability, experience, soundness of judgment and integrity. There is also the question of the collective capacity of the board in terms of the mix of abilities, experiences and personality that best makes up the board as a collective body. (1998, p. 62)

Building on these themes, Leighton (2000) provides a further insight into the qualities and skills required of a director:

The job is no sinecure: to be done well, it requires a high level of financial literacy, only part of which comes from the textbook. It requires judgment of people, a skill enhanced by years of observation and interaction in a business setting. It requires time, commitment and reflection, features more often found towards the end of a career, and it requires the ability to think broadly and strategically, and not to micro-manage. In short, a good director must exhibit wisdom built on business and life experience. (p. 255)

By pointing out that the director’s job is “no sinecure”, Leighton highlights the considerable responsibility associated with the governance role. Much is at stake and, when not undertaken well, the consequences can be wide-ranging. Additionally, Leighton’s identification of “wisdom built on business and life experience” introduces an intangible quality that is difficult to assess. Yet the broad requirement for wisdom offers the potential for recognising skills and knowledge gained from a variety of life experiences, not solely from the business world.

2.3.2 Qualities, Skills, Experience and Specialist Knowledge

Given the broad claims as to the requirements of directors and boards as a whole, it is useful to take a closer look at precisely what qualities, skills, experience and specialist knowledge writers have identified as needed to meet the criteria for effective
directorship. Most immediately, a comparison of some relevant studies relating to director characteristics, board composition and selection serves to highlight different emphases in the significance attributed to each of these factors (qualities, skills, attributes, experience, and specialist knowledge). The disparity also suggests the potential for considerable disagreement as to which actual characteristics should be accorded primacy. For example, Coulson-Thomas (1990), reports in his study:

Personal qualities emerge as easily the most significant criteria for selecting members of a board. Specialist knowledge or expertise or ability in a functional role was cited by only one in five respondents. (p. 29)

Coulson-Thomas drew on survey responses from over 1000 directors from companies primarily based in the UK to develop a training focus for directors. His survey asked about qualities that make a good director and found “certain terms such as awareness, judgment, common sense, vision, wisdom, honesty, tact and communication skills frequently recur” (1990, p. 34). Two decades on, Coulson-Thomas (2009) continues to list a range of personal qualities similar to those found in his earlier survey. These include personal qualities of integrity, wisdom, judgment, and they are listed alongside competences such as awareness of the business environment, accountability, vision and strategic perspective, business acumen, knowledge of relevant governance, legal and financial issues, skills in decision making and teamwork, relevant experience and ethical awareness (pp. 29-30).

Yet a survey undertaken in Australia by Bay and Petit (1998) discounts the ‘soft’ or values-oriented personal qualities in favour of business-oriented competences. They found that, “general management skills are what Boards look for when appointing new members, followed by finance and legal skills (usually involving accounting or law qualifications)” (p. 30). Moreover, Burke (1997a), reflecting on his research into Australian women directors, was surprised to find that “several skills and abilities (leadership qualities, objectivity, diplomacy and tact, communication ability) and character traits (integrity, intelligence) were not seen as very important” (p. 123).

An additional aspect of the skill set, that reflects in part the findings of Coulson-Thomas on personal qualities and which has been highlighted in recent years, is that pertaining to values and business ethics. There has been increasing attention to ethics codes for
companies (Epstein, 1989; Myers, 2003; Wieland, 2005), with commentary from Potts and Matuszewski (2004) that: “it is essential that ethics are integral to the culture of an organization” (p. 177). Extending the issue to reflect specifically on directors, Schwartz, Dunfee and Kline (2005) state:

A high degree of trust is placed in the hands of directors by shareholders … By undertaking a formal commitment to enter into this professional role, and often being paid substantial compensation, individuals serving as directors should be considered bound by professional ethical obligations beyond mere compliance with the law. (p. 86)

Schwartz et al. conclude that: “Corporate governance should no longer be considered distinct from ethics, but instead should be seen as built on an ethical foundation” (p. 96, my italics).

A different slant on skills and knowledge is presented by Lauer (2008) who considers the legal and compliance aspects increasingly affecting directors and companies and refers to the need to provide directors with legal knowledge in areas such as conflicts of interest and insider trading.

Together, the examples cited above present a picture of directorship as a far more complex phenomenon than might be acknowledged by some. Yet this is only part of an increasingly multifaceted account. Korn/Ferry International undertakes surveys annually about governance and directors in Australia and New Zealand. In 2000 they reported that the competencies of non-executive directors on Australian and New Zealand boards were in fact evolving. At the time they claimed that board membership in the 21st century would be less dominated by accountants, moving more towards “a diversity of skills currently valued at the executive level” (Korn/Ferry International, 2000, p. 5). Such an observation focuses us on the changing attitudes as to the most relevant director skill-set, and to the changing societal demands for a wider board representation of different groups. But skills must not be isolated from other factors. For example, McGregor reports that “skills/competence, diversity and political acceptability” are dominant criteria for New Zealand Crown Company director selection (2003, p. 372). In 2008, Forn/Ferry highlighted the need for boards to focus on risk management which, with the current recession, may not be surprising and signals the
sustained need for accounting and finance skills – even if the response to the modern corporation requires simultaneous attention to diversity and ethics.

As is clear from the previous references to the changing environment, one aspect of the skill debate lies with diversity and, in particular, the skills of women. Up until recent years, the lack of women in boardrooms has been attributed to, among other things, a lack of the skills and experience which would make them appointable (based on merit). However, this view is not without its challengers. For example, Bradshaw and Wicks (2000) assert that “women do not lack the experience, credentials or skills to sit on boards but they do lack the demographic similarities that boardroom gate keepers assume will minimize social uncertainty in governance” (p. 198). Similarly, Maclean and Harvey (2008) reported that French female directors on corporate boards are well qualified.

Thus, it would appear that the extent of qualities, skills experience and specialist knowledge required present comprehensive challenges in terms of board requirements. On the one hand there is need to encourage able women and minorities to seek board appointments so that their talent and ability is available to the boardroom ensuring governance activity is enhanced not only by gender and cultural diversity but also by the diversity of perspectives and expertise within the gendered and culturally diverse. On the other hand, there needs to be constant awareness of ‘hard’ skills which emanate from “an ethical foundation” (Schwartz, Dunfee and Kline, 2005, p. 96).

2.3.3 ‘Balancing’ Board Attributes
Paralleling any debate around individual director attributes is discussion on the attributes needed across the entire board. The New Zealand Institute of Directors (IoD) publication on standards for the board suggests there be consideration given to “the energy, experience, knowledge, skills and personal attributes of current and prospective directors in relation to the future needs of the board as a whole” (2001, p. 33, my italics). The Higgs Report, (formally titled Review of the Role and Effectiveness of Non-Executive Directors), a report of United Kingdom governance which provided an analysis of the role and significance of non-executive directors, in turn suggests that: “Before making an appointment, the nomination committee should evaluate the balance
of skills, knowledge and experience on the board” (Higgs, 2003, p. 40). Singh (2007) approves of The Higgs Report’s call for:

...a more open appointment process, with increased diversity of directors, in particular women and those from the ethnic minorities, and increased variety of experiences and backgrounds. (p. 2128)

And, if previously women and minorities were not regarded as well qualified enough to cope with the directorship role, thus limiting their eligibility for selection, this may no longer be the case. Arguably, women and minorities in general have fewer opportunities to perform in high level management roles, and fewer professional networks (McTavish & Pyper, 2007; Singh & Vinnicombe, 2001) and “assessing professional experience [may be] more complicated” when it comes to women (Jonsdottir, 2008, p. 93). Therefore women and other underrepresented groups must prove themselves able through other opportunities that are available to them, rather than seeking entrée to governance via experience and networks: education is one such means of establishing their governance credentials:

For women and racial minorities, education is a key mechanism for securing widespread recognition of individual achievement and expertise. Through education, women and racial minorities can publicly demonstrate expertise, tempering the effects of long-held stereotypes and biases that may limit their appeal to director selection committees. (Hillman, Cannella, Jr. & Harris, 2002, p. 750)

However, indicating barriers to change with regard to board composition, Singh’s United Kingdom-based study concludes that:

ethnic minority directors have to have outstanding CVs and be known across a variety of sectors in order to be appointed to FTSE 100 boards. This indicates a possibility that only those reaching the very highest standards of fit are considered, thereby excluding many of those with similar capabilities and experience to the majority of white male directors. The total absence of ethnic minority females in executive director roles suggests that senior women face the double hurdle of gender and non-white ethnicity. (Singh, 2007, p. 2145)
Thus, the ‘merit’ argument appears to fall down with regard to minority groups and women. While the literature indicates that the idea of balance identifies and stresses a desire for complementary qualities and skills amongst a board’s directors (Bay & Petit, 1998; Cassell, 1996; Jayne, 2007; King, 2001; Kinser, 1993; Securities Commission, 2004) and director selection is made on merit (Office of the Commissioner for Public Appointments, 2001; State Services Commission, 1999), in fact boards continue to exclude an equitable representation of women and minorities. This, in the face of arguments that any attention to the balance of qualities and skills on a board of directors, should not be confused with ‘sameness’ (van de Walt, Ingley, Shergill & Townsend, 2006).

This is an important point, as a matter at issue with sameness, or like-minded appointees, is the risk of ‘groupthink’ or homogeneity (discussed later in this chapter). Integral in the idea of groupthink is the sense that diversity is no gesture to social representation or ‘political correctness’, but, simply, good business sense (e.g. Biggins, 1999; Burke, 1997a; Ray, 2005). This logic suggests that too much similarity among board members constrains decision-making and thus limits the board’s effective operation in a dynamic contemporary environment.

2.4 Board Composition

The question as to what is the ideal board composition has been debated from several standpoints. These angles include the previously mentioned range of skills required for the effective operation of a board (Allen, 1995; Bilimoria & Wheeler, 2000; Forbes & Milliken 1999); the number of directors required to make the board function well (e.g. Konrad, Kramer & Erkut; 2008, Leighton & Thain 1997; Pfeffer 1972); the degree to which the board members operate and co-operate effectively together (e.g. Higgs 2003; Kakabadse, Ward, Korac-Kakabadse, & Bowman 2001; Westphal, 1999); and the mix of people required in terms of gender, age, ethnicity (e.g. Andringa & Engstrom, 1998; Burke, 2003; Korn/Ferry International. 2002; Leighton & Thain 1993).

Board composition has also been investigated with regard to the roles and influence of the CEO, the appropriate balance of executive and non-executive directors, and, extending that theme, ideas around in terms of the factors that facilitate or inhibit board
unity without compromising individuality and inventiveness. The following sections provide more detailed insights into these dimensions.

2.4.1 Chief Executive Officers (CEOs) and Board Composition

CEO influence has preoccupied researchers, largely because much of the governance literature relevant to board composition focuses on public and private companies where the CEO is an executive member of the board. This places CEOs in the dual roles of management and governance, thus providing a dual power-base. And evidence suggests that CEOs prefer appointees who have had experience in management – essentially people like themselves (Brancato & Patterson, 1999; Broom, 2008; Burke, 1994; Fich & White, 2005; Singh & Vinnicombe, 2004; Westphal & Zajac, 1995). This preference encompasses not only the skill level but the ways of thinking: ‘like-minded’ people who will understand CEOs and have a measure of sympathy with recommendations made by them.

Thus CEO power is perpetuated and reinforced. Further, the role of the CEO, and role played by their close social networks in terms of opportunities for multiple board memberships and for influencing board composition, cannot be underestimated. Galaskiewicz, Wasserman, Rauschenbach, Bielefeld, and Mullaney (1985) asserted that “the community’s very largest firms, where the CEO was also a member of the social elite, were most likely to be represented on local boards and tended to choose one another to sit on their own boards” (p. 404). This is no isolated observation, and may indeed be the norm in some business environments. At the extreme, it has been noted that: “For a long time, boards were usually handpicked by the corporation’s senior management and, except in a crisis, were largely passive advisors to the CEO” (Allen, 1995, p. 1). More moderately, Westphal and Zajac (1995) report that “CEOs generally are able to influence the appointment of demographically similar new directors” (p. 78) and that “demographic similarity between the CEO and new director is the general rule, rather than the exception, and that only firms with a high degree of board power are likely to counter this tendency” (p. 78). Easy as it would be easy to point to the fact that these studies were based in America and thus do not provide a cross-country, comparative, perspective, there is little evidence to suggest that practices are different among businesses in other countries.
Of course it would be grossly misleading to assume that CEOs do not provide a valuable source of directors or that the recommendation of a CEO for a competent director should be viewed with complete skepticism. Indeed, their management careers can help to prepare them with the very skills that are valued in the boardroom. They develop unique insights into the business sector, and build up strong industry contacts. Further, as Fich (2005) points out, “firms like to retain on their boards chief executives with proven managerial talent in order to improve their own performance” (p. 6). This position reflects a claim made 12 years earlier by Leighton and Thain (1993), who acknowledged positive and negative aspects of CEO involvement as in boards:

   The necessity for directors to possess such skills explains why most businesses take the easy route and appoint other CEOs or prominent businessmen to their boards; those people have, after all, by their present stature demonstrated prior competence on such issues. (pp. 21-22)

Thus, the negative implications of what Leighton calls “the easy route” may be counter-balanced by the acknowledgement of the more positive “demonstrated prior competence”.

A worrying negative effect of the influence of CEOs is, however, highlighted by Shivdasani and Yermack (1999) who note that CEO involvement in director selection “is a mechanism used by powerful CEOs to curb the performance pressures that arise from monitoring by the board” (p. 1852). This leads to some disquiet about board members’ ability to carry out their obligations to all stakeholders when under the pressure from a powerful CEO, a concern echoed by Gerety, Hoi and Robin (2001). Simply, in their view, “When the CEO has greater influence over the director selection process, the board of directors is less effective in monitoring managerial discretion” (p. 46). Moreover, in a recent study of 760 directors from large and medium sized United States firms, Westphal and Stern (2007) reveal that directors who are involved in monitoring and control are sanctioned within the director market, whereas those who provide advice and information are favoured, and that ingratiation towards those who control access to board positions is rewarded by additional appointments (p. 282). However, the study found that the positive outcomes of ingratiation applied to white, male Caucasians only, and that ethnic minorities and women who engaged in the same
behaviours were rewarded less and, if the ethnic minorities and women engaged in monitoring and control, they were punished more (Westphal & Stern, 2007).

It might be argued that those negative control/monitoring issues identified may be somewhat offset by other observed benefits of CEO involvement. However, accountability is a serious consideration for any director, who in New Zealand is also personally liable for failure to comply with the Companies Act (as detailed in s. 373 and s. 374 of the Companies Act 1993). This liability includes fines ranging from $5,000 to $10,000. It is noted also, that the Crown does not make any provision for its own directors. Indemnity insurance is their own responsibility (Pers. Comm. Steve Rich, September 10, 2009).

These matters notwithstanding, among additional, more productive social spin-offs of CEO influence for the board functioning and organisational practices, are some highlighted by Westphal (1998, 1999). In the late 1990s, Westphal studied 600 large and medium sized companies from the Forbes 1000 index. These companies were randomly selected and were rated as industrial and service firms (Westphal, 1998, p. 520). The focus of the study was the responses of CEOs to increases in structural board independence from management. In this work, Westphal also undertook an extensive review of literature on board structure where findings suggested that changes to board structure resulting in board membership being more independent, gave the board more power. Westphal’s research found that:

- widely hypothesized relationships between board structure and organizational outcomes are affected significantly by interpersonal influences processes in CEO-board relationships. The findings indicate that CEOs’ interpersonal influence behaviour mediates the effects of increased structural board independence on subsequent change in several different organizational outcomes. (1998, p. 529)

Further, Westphal reported that:

- increasing structural board independence can decrease the board’s overall power to protect shareholders by prompting CEOs to use interpersonal influence behaviour as an alternative source of power. (1998, p. 529)
By the following year, Westphal (1999) in his study of 243 CEOs and 564 outside directors from 600 Forbes 1000 companies, was reporting a change of heart with regard to the role of the CEO, claiming that his findings:

… challenge[d] dominant assumptions in the prior empirical literature on boards by showing how social ties in CEO-board relationships can enhance rather than diminish board involvement and firm performance by encouraging advice seeking in the strategic decision making process. (pp. 20-21)

Of interest to the context of the current study, is Ingley and van der Walt’s (2001) work examining, among other things, selection of non-executive directors in New Zealand. Out of 35 factors they found to influence director selection, previous CEO experience was not a key factor, ranking 20th. Yet, perhaps paradoxically, those influences ranked in the top quarter focused on specialist expertise, industry knowledge and respect within the industry, attributes that CEOs might be expected to have.

Despite attention from researchers, CEO influence, or their input into board composition and selection, has yielded equivocal results. There is considerable evidence that CEOs can be, and often are, influential. However, it is unclear as to whether CEO input is, on balance, negative or positive.

2.4.2 Executive and non-Executive Directors and Board Composition

As we saw from the previous discussion, CEOs are not only potentially influential when it comes to board composition, but also they can themselves be directors. Indeed, it is common for boards to be comprised of both non-executive directors and executive directors – the latter being from the management team (typically the CEO and/or the Chief Financial Officer). Non-executive directors are external to the company with no formal ties to it other than knowledge of the industry or some relevant expertise. Non-executive appointees can be considered independent of the company if they have not been a previous employee and they are not currently associated with the company apart from through their director role (e.g. they are not a shareholder). It has been observed that:

Independent directors have long been recognized as an essential element of good corporate governance. Independence brings objectivity and objectivity usually
gives rise to a beneficial tension between the board and management.
(Korn/Ferry International, 2002, p. 8)

The point is that the degree of independence among non-executive directors may vary; therefore there must be reliance on a director’s ethical awareness and professionalism to assure stakeholders that execution of duties is not compromised.

On boards where both executive and non-executive directors are present, the relationship between them is pivotal in determining the ease and success with which each can undertake their roles, both as board members and in daily management duties. Higgs (noted earlier as author of The Higgs Report which looked governance in the U.K.) concludes:

it is important to establish a spirit of partnership and mutual respect on the unitary board. This requires the non-executive director to build recognition by executives of their contribution in order to promote openness and trust. Only then can non-executive directors contribute effectively. (Higgs, 2003, p. 27)

Higgs also notes that it is beholden on non-executive directors to question and to maintain a degree of individuality in order to introduce new understandings and points of view. Non-executive directors thereby have some distinctive responsibilities that sets them apart from executive directors:

Although they need to establish close relationships with the executives and be well-informed, all non-executive directors need to be independent of mind and willing and able to challenge, question and speak up. (Higgs, 2003, p. 35)

Differing views exist, however, regarding the measure of diversity brought about when both executive and non-executive directors are present in the boardroom, and as to what can realistically be achieved. For example, Grady (1999) explains that board heterogeneity through the dominance of non-executive directors (and with it the likelihood of challenging the status quo) is not likely to be much enhanced, since both executive and non-executive directors:

… are almost always cut from the same cloth: men who live in the same city and have similar backgrounds. Boards so constituted lack the diverse perspective needed to challenge the thinking of management. (p. 18)
But Langevoort (2001) sees this observed similarity among executive and non-executive board members as a good thing – underpinning a sound board structure. He mildly censures other scholars who:

…have suggested that a positive case can be made for a judicious mix of inside and outside directors as the optimal board structure. Some independence is essential on boards…but there can be too much of a good thing. (p. 799)

These views represent, in essence, the earlier research undertaken by Baysinger and Hoskisson (1990), who comment: “It may be … that in certain industries board composition should emphasize outsider dominance, whereas in other industries boards should emphasize either insider or mixed dominance” (p. 84). This is an argument in favour of a more flexible understanding of the ‘best’ balance, since circumstances differ.

Whilst executive and non-executive are terms frequently used in the governance literature, Forbes and Milliken (1999) extend the discussion by categorising different types of directors in terms of the ‘insider-outsider’ dichotomy. Hinging their argument for more ‘insiders’ on their potential for greater loyalty and closer grasp of issues relevant to a particular organisation, they claim that:

the presence of outsiders is likely to reduce the presence of firm-specific knowledge on the board, for outsiders lack the intimate understanding of the firm’s affairs that insiders possess… [and] …the percentage of outsiders on a board is likely to have a direct negative effect on board cohesiveness. Whereas insiders are well acquainted and must work together regularly, outsiders have their primary affiliations dispersed across many different organizations and are likely to interact only periodically with insiders or with each other. (p. 499)

Although there is some value in recognising the different levels of engagement with the business, and the effects of people with different backgrounds on board unity, this binary conception appears blunt and limiting. Perhaps the concerns surrounding ‘insider-outsider’ themes may be academic, however, since there is likely to be more similarity than difference among both executive and non-executive directors, given that: “retired chief executives make up the majority of non-executive board positions”
An associated theme that impacts on these elements is how people behave in groups, which involves the extent to which individuals (in this case, directors) feel comfortable, the way they think, how the group influences thinking processes. For a member of a board, and particularly for the chairperson, it may well be as important to consider and manage behavioural dynamics and power relations as it is to understand and recognise the value of business skills, experience and overall expertise underpinning the directorship role. Some commentators in the previous discussion have argued that unity and homogeneity have a role in the effective functioning of a board. Others argue that the effectiveness of directors hinges on their ability to contribute without succumbing to dynamics that stifle their confidence or ability to participate in high quality, creative, governance discussion and decisions. Behaviour that pertains to this ranges over constructs such as groupthink, ingratiation, and pluralistic ignorance. These constructs will now be briefly introduced under the broad banner of diversity, but with an initial discussion of board homogeneity and heterogeneity.

2.5 Diversity in the Boardroom

2.5.1 Homogeneity and Heterogeneity

Groupthink (Janis, 1971) has been discussed in relation to group cohesion, and the effect that can occur in group behaviour and dynamics when people work together and particularly those who have a degree of ‘sameness’. In governance, such people may have taken the same route to the boardroom (for example retired CEOs), or be appointed courtesy of the ‘old boys’ network’, or may simply be individuals who behave differently in the boardroom from their usual style because of how various personalities combine and work together in that specific group environment.

Forbes and Milliken (1999) explain the groupthink phenomenon as occurring “when members of highly cohesive groups engage in self-censorship and act as ‘mindguards’, pressuring deviant thinkers to conform to majority opinions” (p. 496). Indeed, researchers studying this pressure to conform to group norms, have observed that, “on average, experts will state their knowledge once or twice in a group discussion, and
when no one else picks up on it, the knowledge gets lost in the decision-making process” (Atkinson & Salterio, 2002, p. 25). The implication here is that the overall functioning of the board may potentially be either aided (through not succumbing to unproductive conflict) or hampered (through suppressing useful minority opinion) by the effects of ‘groupthink’.

Accountability, according to Kroon and van Kreveld (1992), is one strategy to alleviate the extent of negative impact from groupthink. In their study of 171 students at Utrecht University looking at the effects of accountability and gender on groupthink these researchers reported that accountability “significantly affected some aspects of decision making” (1992, p. 9), proving to “have some beneficial effects on group decision making” (1992, p. 10). It could be argued that, because of their requirement to report to shareholders and to comply with legislation, all boards have a measure of accountability, yet this will not automatically ensure avoidance of the tacit and covert elements of groupthink.

Groupthink may result in easier, more congenial board meetings but may not serve the company well. Strategies to avoid groupthink have been a factor in the promotion of diversity on boards as a positive approach to good governance.

Compounding the complexities of groupthink in relation to governance and board composition is the behaviour referred to as ingratiation, mentioned earlier in relation to Westphal and Stern’s (2007) findings. Ingratiation occurs when individuals behave in a particular way in order to enhance their attractiveness to those with whom they interact. Judge and Bretz (citing Jones, 1964), mention:

three types of ingratiation tactics: other enhancement (i.e. flattery); self-presentation (e.g. false modesty, smiling, rendering favors); and opinion conformity. (1994, p. 45)

Westphal and Stern (2007) explored interpersonal behaviour exhibited by some as a way of obtaining board positions. They conclude that:

interpersonal influence from ingratiation can substitute to some extent for the social capital provided by an upper class background, attendance at elite
Together, groupthink and ingratiation are aspects of boardroom behaviour that are related to high degrees of interpersonal identification and board homogeneity, both of which might prove counter to effective board performance. But if homogeneity impacts on performance, heterogeneity of the group will also impact on how the group operates and behaves, and thus on how the board functions. Influential aspects of board homogeneity/heterogeneity relate to the combined demographic characteristics of directors, including age, gender, and ethnicity. Schneider (1987) points to a group’s fundamental tug toward homogeneity:

if people who do not fit leave, then the people who remain will be similar to each other. But the critical point is not just that they will be similar to each other, but that they will constitute a more homogeneous group than those who were initially attracted to the setting. (p. 442)

But, as mentioned before, this raises a fundamental concern for organisations, and for governance structures, as to whether the resulting homogeneous groups will provide the best outcomes for the organisation. Board members may get on well together, but will they debate robustly and make the best decisions? This is the tenor of the Korn/Ferry International report which advocates the need for independent directors on a board because their presence can produce a beneficial tension in the relationship between management and board (2002).

Tsui, Egan and O’Reilly (1992) consider both sides of this issue in terms of social identity and people’s tendency to prefer being with similar others even though there is some literature on individuals’ needs for uniqueness. Significant in the research findings of Tsui et al. is their assessment of heterogeneous groups in that “[t]hey are beneficial for tasks requiring creativity and judgment, but they can also decrease cohesiveness and increase turnover” (Tsui et al., 1992, p. 575). Thus, in seeking the optimal combination of directors, for favourable board performance, there is a balance to be struck between two, seemingly contradictory, imperatives. On one hand, comparable backgrounds and experiences will apparently promote a more harmonious group, and therefore facilitate board decisions and general processing of the board’s
business. On the other hand, such congruence does not stimulate the creative thinking that might assist better board decisions. Further, these issues raise questions in terms of the Chair’s role, the calibre and professionalism of directors and, as Kroon and van Kreveld (1992) report, the extent to which accountability for decisions is enforced.

Another, related factor, in the similarity-diversity debate with regard to board membership is that of pluralistic ignorance. This concept was featured approximately 30 years ago as the Abilene Paradox, and relates to the occurrence of agreement or consensus in a decision-making process to mask organisational problems (Harvey, Novicevic, Buckley & Halbeselben, 2004, p. 216). Essentially, the Abilene Paradox “highlights the collective inability to manage agreement and reach an acceptable decision, particularly when individual participants privately feel that an alternative decision would be better” (Harvey et al, 2004, p. 216). The consequence of the Abilene Paradox is “poor decision-making, in spite of a situation where formal consensus was reached among the management team members” (Harvey et al, p. 217). Pluralistic ignorance was explored by Westphal and Bednar (2005) in a study of mid-size public companies in America. Westphal and Bednar found that:

- higher levels of diversity among outside directors with respect to functional background, educational affiliation, and gender tend to exacerbate pluralistic ignorance, ultimately increasing strategic persistence in the face of poor firm performance. (p. 289)

However, they contend that there are ways of reducing pluralistic ignorance through actively working to increase social cohesion among outside directors, and suggest the use of:

- decision-making aids such as dialectical inquiry or the devil’s advocate method (Katzenstein, 1996) that increase the tendency for group members to voice what are perceived to be dissenting opinions. (Westphal & Bednar, 2005, p. 289)

Thus, perhaps paradoxically, in addition to groupthink and homogeneity, pluralistic ignorance is a factor that can potentially limit the quality of a board’s performance and, therefore, firm performance.
The challenges and benefits of diversity in board composition are further discussed in the following section (2.6). As is often the case with human behavioural issues, matters associated with homogeneity and heterogeneity on boards are fraught with contradiction. This may not be surprising when we consider board diversity, especially when we focus on gender issues. Inevitably, people employ a range of behaviours as they approach tasks and select from a repertoire of responses and actions according to the situation. The studies I have outlined show that, in the governance arena, some specific and deliberate behaviours impact on appointments and therefore on how governance is enacted. They also demonstrate that governance literature draws on, and explores, homogeneity, heterogeneity, including behavioural themes such as groupthink, demographic, pluralistic ignorance, ingratiation, and their effects on decision-making processes and decision quality. Previous sections outline and briefly examine arguments that propose homogeneity for team members in terms of a number of dimensions, including those relating to board member satisfaction and ‘fit’.

Countering arguments for homogeneity are those for heterogeneity. These arguments cite the strengths brought about by variety as a basis for creative decision-making, through canvassing a range of ideas. It is on this basis that appeals are frequently made for board diversity in terms of not only skill, but also gender, age and ethnicity.

In summary, arguments put for diverse board composition have been both supported and contested, with researchers and commentators representing a range of views. While each study is likely to contribute somewhat to the overall understanding of corporate governance, it is unsurprising that findings can be often contrary. The broader cultural environment aside, individual differences in personality and cognition impact on each separate board (group) and each set of governance circumstances. There will be personality types that prefer and work well in a homogeneous group and there will be those that enjoy the opportunity to debate with colleagues within a heterogeneous group. Similarly, there will be individuals who select ingratiable behaviour to enhance their standing with a group or in the eyes of the individuals who have greater power or influence, and those who will choose to be uncompromising in their opposition to others if they feel strongly about an issue.
2.5.2 Issues Associated with Board Diversity

Much of the recent literature supporting board heterogeneity, has been underpinned by the assumption that diversity provides an automatic mechanism by which all governance operations are improved. This means that decision making is of higher quality, ideas and expertise available to the board are different therefore better, and that people in director roles will better reflect the community in which companies operate and are therefore going to provide more relevant and better quality processes and outcomes for the company. As noted earlier, diversity in board composition has currency in the debate on corporate governance for several reasons, not least being that it is regarded as a means of increasing the variety of views available for decision making and a strategy to minimise groupthink.

Diversity in terms of board composition generally covers gender, age, ethnicity, culture, technical skills and expertise, industry experience, geographical location (for constituency representation), and independence. Diversity is also discussed in other contexts, including the need for organisations to more accurately reflect the community they serve and to be more relevant to the market in which they operate and compete. Overwhelmingly, however, board diversity studies focus on gender (e.g. Vinnicombe et al., 2008) and culture/ethnicity (Brancato & Patterson, 1999; Dalton & Daily, 1998; Hilman, Cannella Jr. & Harris, 2002; Singh, 2007; State Services Commission, 1999).

The focus of this section is to examine some of the issues relating to these factors that might contribute to the final decision about director selection.

2.5.3 Board Diversity for the Contemporary Organisation

Diversity, some argue, is an important component for the successful governance and management of contemporary organisations. Researchers and commentators highlight the need for governing bodies to reflect the multi-cultural and multi-national environments in which they operate (Erhardt, Werbel & Shrader, 2003; van der Walt & Ingley, 2003; Rice & Sookdeo, 1994).

Burke (1997b) is frank about the contemporary environment and the need for diversity within organisations at board level if the environmental challenges are to be met
successfully. He alludes to a variety of social and business imperatives that impact on business organisations:

If firms are to remain productive and competitive in an increasingly demanding global marketplace, they must recruit, retain, develop and promote their most talented people – regardless of their sex. This is increasingly seen not only as the right or ethical thing to do but also the smart thing to do. (Burke, 1997b, p. 873)

Yet findings from Adams and Ferreira’s (2009) recent study of United States companies serve to highlight the complexity inherent in diversity claims. They suggest that:
diversity has a positive impact on performance in firms that otherwise have weak governance, as measured by their abilities to resist takeovers. In firms with strong governance, however, enforcing gender quotas in the boardroom could ultimately decrease shareholder value. One possible explanation is that greater gender diversity could lead to overmonitoring in those firms. (p. 308)

Leighton (2000), in turn, cites “considerable evidence to suggest that diversity on boards is a matter of sound corporate strategy, not a bow to political processes” (p. 259).

Others have reasoned that awareness of factors operating in the international arena needs to be given local context and modified accordingly. Writing from a New Zealand perspective, Jones, Pringle and Shepherd (2000) point out that there may be local nuances to be considered, and we should question how appropriate it is to accept approaches to diversity and adopt models espoused in other countries. Jones et al. accept that “the notion of “think global and act local” is a useful tenet for managing diversity in international organizations” (2000, p. 377). However, they continue, “[w]hile the idea of ‘managing diversity’ can be seen as a positive and worthwhile pursuit of multinational corporations, how this is actually achieved and what each country implements to meet this overall goal needs to be locally specific” (pp. 377-378).

2.5.4 Diversity and a Changing Workforce
Aside from contextual factors relating to geography and culture, it is important to note that factors associated with diversity might also be open to negotiation over time. For
example, there is a different population comprising the workforce today than was the case a generation ago. In New Zealand, women now account for 47% of the total employed workforce (Statistics New Zealand Household Labour Force Survey: March 2009). Additionally with people living longer and staying in employment longer, and with countries being more open to immigration and increasing the ethnic population, the general mix in the workforce provides an opportunity for addressing workforce, management and governance challenges in different ways.

Of course, summary workforce statistics do not reveal the underlying statistics that come closer to the reality of workforce participation, a point made poignantly by New Zealander Marilyn Waring (1999) with regard to women’s place in the economy. More recently, Dorsey (2001) notes:

Women are one-half of the world’s population, perform two-thirds of the world’s work, and market over three-fifths of the world’s food. Yet, women represent three-fifths of the world’s illiterate, receive one-tenth of the world’s income, and own less than one-hundredth of the world’s property. (p. 438)

These inequities are also reflected in economies in more subtle ways through women’s representation at senior management levels (Davidson & Burke, 2000), in the boardroom (Burke, 2000), and at senior levels of government (McGregor & Fountaine, 2008).

But any impetus for increased diversity on boards may be more a consequence of external pressure than any moral impulse for equitable representation. Farrell and Hirsch (2005) claim that their “finding of a positive relation between institutional ownership and female board additions supports this view” (p. 104).

2.5.5 The Business Case for Board Diversity
We have seen that, within the broad arguments for boardroom diversity, are those advanced by researchers that point out the need to ensure a range of views to suit the contemporary organisation (e.g. Andringa & Engstrom, 1998; Biggins, 1999; Bilimoria, 2000; Kristie, 1997; Rutherford & Ollerearnsbaw, 2002; Siciliano 1996). There are those researchers who argue for high quality decision-making (e.g. Adams & Flynn, 2005; Carpenter & Westphal, 2001; Forbes & Miliken, 1999); those who claim that a
diverse board will help address the need for high quality boards to face the increasing competition from national and international markets (e.g. Andringa & Engstrom, 1998; Biggins, 1999; Erhardt, Werbel & Shrader, 2003; Fairchild & Li, 2005; Ibrahim & Angelidis, 1994; Singh, Vinnicombe & Johnson, 2001); and those who base their claims on social equity (Harrigan, 1981; Rajan & Zingales, 2000; Robinson & Dechant, 1997; Singh & Vinnicombe, 2004).

Notwithstanding suggestions of any perceived social or ethical imperatives, the major drivers that underlie diversity as a relevant factor to influence director selection and board composition, are likely to be those that support the business case: simply put, it is the business case for board diversity that is likely to be most compelling. This is doubtless what Burke (1997b) was appealing to when he suggested diversity in the boardroom was “the smart thing to do” (p. 873). Similarly, Farrell and Hersch wryly inquire: “If diversity is not a value enhancing strategy, then why the demand for board diversity?” (2005, p. 104). Indeed, eschewing any pretence about a social case for diversity, beyond that of shareholder value, Biggins states: “Boards are not social agencies, and it is not their job to create cultural diversity. Yet they are discovering that a diverse board helps generate better returns for shareholders” (1999, p. 1).

Essentially, the argument goes, the bottom line, firm performance, and financial returns are all enhanced by a diverse board. Bryan (1995), for example, states:

Diversity does encourage creativity, for you get a much wider range of ideas from groups made up of diverse individuals than you do from groups with similar background, education, and experiences. A diverse board will inherently have richer discussions and a more insightful approach to issues and problems, both of which are essential in making the right decisions for the corporation and its shareholders. (p. 7)

With respect to the presence of women on boards Vinnicombe and Singh’s (2008) report of female representation on United Kingdom FTSE 100 boards finds that “Both market capitalisation and board size are significantly and consistently higher for companies with female directors when compared with those of all-male boards” (p. 6).
This growing evidence of positive business outcomes helps to form a strong case for a diverse board composition. In turn this helps to ensure that a company’s governing structure has a rich pool of intellectual capacity and reflects the community in which it operates.

Some researchers are more guarded in their endorsement of the business case and the practical benefits and/or acceptability of diversity in the boardroom. Goodstein, Gautam and Boeker (1994) concluded that:

The negative relationship we found between board diversity and strategic change raises a potentially important strategic dilemma for organizations: large and diverse board structures that have traditionally facilitated the institutional governance functions of the board may hinder the board’s ability to initiate strategic change. (p. 248)

Notably, Milliken and Martins (1996) looked at various research on the effects of diversity on groups and conclude that, “there are cognitive and symbolic benefits of diversity. However, diversity also leads to serious affective costs” (p. 241). Milliken and Martins raise the question as to whether organisations will be prepared to meet those costs, and, indeed, pose more questions than answers:

If so, are there ways in which organizations can perform a balancing act between the costs and benefits of diversity? On the other hand, is it possible for organizations to get the best of both worlds by minimizing the affective costs and maximizing the cognitive and symbolic benefits of diversity? We believe that more research on the processes underlying the effects of diversity may hold the answers to these questions. (p. 421)

Overall, there are number of diversity arguments that support or contest changes to customary practice around selection and composition of boards. Proponents of the various positions are likely to converge only around the broadest of claims, reflecting a business rather than a social imperative. Ray (2005) argues for board diversity thus: “[h]omogeneous and self-perpetuating boards do not guarantee the development and implementation of a sustainable corporate strategy” (p. 98). Essentially, when it comes to the benefits of board diversity, the ‘business case’ rules.
Homogeneity and Heterogeneity Revisited

But how do rational appeals for heterogeneity and board diversity fare in the face of the less rational forces drawing board participants towards board homogeneity? Milliken and Martins’ (1996) research served to take stock of research done up until the mid 1990s, and drew attention to the complexity of the board diversity issue, providing a point of reference for ensuing research. Later research has spanned a range of themes, even looking at personality characteristics in terms of achieving affective diversity. It is evident that many researchers have tried to explore and reconcile the various concerns and contradictions in order that we might better understand the governance in a contemporary context.

Some research studies have attempted to bring together the theorising around behavioural aspects of people in groups with such business demands for innovative approaches and accountability. Barsade, Ward, Turner and Sonnenfeld (2000), for example, found “trait positive affective diversity does make a difference in individual group members’ attitudes, group processes, and group performance” (p. 824). Others too have sought to explain the similarity-attraction paradigm. Goldberg (2005) focuses on interview assessments and offers of employment, highlighting racial diversity. According to Goldberg, there is:

- evidence that applicants who are racially similar to recruiters receive more favorable interview assessments and are more likely to receive subsequent offers than are applicants who are racially dissimilar. (p. 616)

Stepping back from the specific dimensions of diversity, Ingley and van der Walt (2003) in a survey of diversity and groups conclude:

One of the most important and consistent findings of research on diversity is that groups that are diverse gave lower levels of member satisfaction and higher rates of turnover than more homogenous groups. This suggests the presence of a systemic problem where groups and organizations will act systematically to drive out individuals who are different from the majority unless this tendency to drive out diversity is managed. (p. 9)

So, accommodating diverse ‘others’ within a previously comfortable social group may be just too difficult, requiring an investment of time and energy. Ingley and van der
Walt make the point that, if groups stay together, relationships can improve over time – but not all people are prepared to spend time waiting for those relationships to start working and one should consider the cost to the company where a board continues to operate in such an environment. In addition, Sheridan and Milgate (2003) from a questionnaire to female Australian directors, found that women favoured board diversity whereas men preferred board homogeneity.

Although skill and competence may be desired around the boardroom table, they are still overshadowed by practices that perpetuate long-standing appointment outcomes of ‘more of the same’. These practices may be deeply rooted, not just in established business or organisational systems, but in wider social and cultural norms and behaviours that are particularly resistant to change. Broom’s (2008) review of Branson’s book *No seat at the table: How corporate governance and law keep women out of the boardroom* (2007) concludes by suggesting:

> there may be a competitive advantage from constructing a high performance board of qualified professionals with a broad array of backgrounds and experiences. Too often, directors follow the path of least resistance and nominate their acquaintances with whom they feel comfortable and these candidates necessarily often resemble the incumbent directors in terms of gender, race, social status, background and experience. (p. 680)

Established conventions appear to be slow to change, and a rationale for maintaining practices is provided in accounts of the potential for group dysfunction within a heterogeneous board (Farrell & Hersch, 2005). These are in turn countered by arguments about the negative impact of groupthink, pluralistic ignorance and homogeneity. On balance, however, it appears that a well managed, diverse board, is likely to have a positive impact on the overall governance of the company and will be better at addressing business imperatives in a changing world, whilst also meeting some of the social obligations in terms of equity and representation.

2.5.7 **Women on Boards: Representation or Tokenism?**

While positive outcomes of diversity can be achieved through the appointment of women as well as men, including those of differing ethnic origins and ages there are also challenges. With increasing evidence that women are not equitably represented on
boards of directors, worldwide as well as in New Zealand (McGregor & Fountaine, 2008), the issue of gender diversity on boards is problematic. Rapidly changing organisations and evolving boards need to grapple with the challenges. Further, in order to assist and influence future selection behaviour and trends, how directors are currently selected needs to be clearly identified and analysed. Just as companies revisit their direction, future goals and strategy for attaining them, so too should the board consider whether traditional board composition is appropriate for the new goals and strategy the company is targeting.

Marshalling sound evidence can help advance the debate about women in the boardroom, and might also eventually impact upon boardroom practices. With this in mind, Burke and Mattis (2000) encourage greater formalisation around, in particular, the issues of women’s representation on boards, remarking that:

we need to begin to develop a theoretical body of work about gender diversity on corporate boards that, in combination with benchmarking activities, will move both scholarly dialogue and the pace of change for women forward. (p. 5)

Adding substance to this claim is evidence from a number of other studies that women are indeed stymied when it comes to board representation. For example, Daily, Certo and Dalton (2000) analysed whether women had made progress in assuming directorships and concluded that in essence, they had not. This indicates a change in perspective since their earlier work (Daily, Certo & Dalton, 1999) which found that, “[w]ith respect to most aspects of board of director representation, there is obvious progress for women in the last decade” (p. 96). Hillman, Cannella Jr and Harris (2002) held that progress, if slow, was nevertheless happening, citing evidence that “director profiles have shifted toward the inclusion of members whose gender and race are different from the traditional white male director” (p. 747). Ross-Smith and Bridge (2008) note that: “despite some growth in non-executive director appointments in Australia in recent years, the percentage of women on corporate boards continues to be disappointingly small” (p. 76). In keeping with international research findings, progress towards gender equity on New Zealand boards has been disappointingly slow (McGregor & Fountaine, 2006).
The fact that any progress is happening perhaps indicates that there may be a change in attitude toward appointing women, that such appointments are no longer as novel as previously and are becoming more acceptable (albeit slowly). However, to temper any belief that the number of women on corporate boards has changed dramatically, Holton (2000) points out that: “Women directors in Britain are rare, so much so that a major appointment of a woman is likely to make headlines in the national business press” (p. 145). Often these women are the only females on the board, although Holton notes the number of companies appointing more than one woman is increasing. That said, Sealy, Vinnicombe and Singh (2008) report that females represent only 11% of the FTSE 100 directorships on UK boards.

The question of critical mass, then, becomes important: how many women (or what proportion) on a board is enough? Low representation is indicative of tokenism, which is likely to lead to women on boards being highly visible, perhaps regarded as a polarising force, and subject to pressures to fit stereotypical roles (Kanter, 1977).

2.5.8 Acceptance of Women in the Boardroom

Madslien (2002) reported that the requirement for Norwegian State owned and private companies to appoint women to at least 40% of boardroom places was not well received by many sectors of the corporate world. There was concern that incumbent directors would be ousted in order to meet the requirement and that shareholder democracy which allows owners to control and influence director appointments, would be compromised. Holton suggests “unless a wider group appreciate, and promote, the need for change, we are likely to see the same overall trends in the future” (Holton, 2000, p. 155).

Within the context of general debate surrounding executive and non-executive directors, the place of women has emerged as a point of interest for some researchers. Perhaps unsurprisingly, given their low representation among the ranks of senior managers (Korn/Ferry International, 2002, 2008; Vinnicombe et al., 2008), it has been noted that “women in the boardroom are more likely to be non-executive rather than executive directors” (Conyon & Mallin, 1997, p. 114). This observation was made in regard to private companies in the United Kingdom but it is doubtful that would be an exclusive element of either British boards or private boards. For example, an Australian study by Burgess and Tharenou (2000) found “Women nonexecutive directors are more freely
selected (invited, elected) than women executive directors who are on the board often because they work for the company or are owners” (p. 111). Further, “women directors are usually outsiders and, therefore, more likely to be objective and independent” (Fondas, 2000, p 173). With regard to public companies, “[t]here are also opportunities for women to be appointed nonexecutive board members if they are in the public sector and large organizations, which may have pressures on them to conform to external pressures” (Burgess & Tharenou, 2000, p. 126).

Given that views about the value and acceptability of ‘outside’ directors appear equivocal at best, women are vulnerable to disadvantages associated with both gender related bias and negative preconceptions related to recruitment of directors external to the industry. Further, when combined with the institutional and organisational biases (Bilimoria & Wheeler, 2000) that impact on women’s opportunity to serve on boards, it is remarkable that any women reach the boardroom. However, diverging from claims that women are without support systems so frequently associated with the old boys’ network, Burgess and Tharenou (2000), in their study of Australian women directors note that: “…it is not career encouragement over one’s career that is related to women being appointed to board, but lengthy ties with other women going through the same circumstances” (pp. 122-123). Perhaps this is signaling the establishment of an ‘old girls’ network’ that could be starting to redress the imbalance between women and men’s access to positions of power.

2.5.9 Do Women Directors make a Difference?
Once women are in director roles, some commentators claim that there is evidence to suggest that their presence does make a positive difference. However, that difference is often expressed as stemming from stereotypical behaviour patterns. For example, in a cross-cultural study of four women directors, Bilimoria (1997) suggests that gender diversity has a particular role in enhancing board processes and outcomes:

women directors are conscious of their efforts to enhance board performance by facilitating a comfortable boardroom atmosphere, by setting and modeling a different and kindlier tone and style of interactions, by being extremely well prepared for boardroom deliberations, and by not being afraid to ask probing, and sometimes difficult, questions. (p. 74)
Similarly, Adams and Ferreira (2009), from a study of US companies, found that “female directors behave differently than male directors [and that] the gender composition of the board is positively related to measures of board effectiveness” (p. 307).

But, in one of the more concise summaries of work done regarding women’s contribution to boards, Burgess and Tharenou (2002) summarised a range of research studies that referred to women’s contribution:

(a) increased diversity of opinion in the boardroom (Catalyst, 1995a), (b) women directors bringing strategic input to the board (Bilimoria, 2000), (c) influence on decision making and leadership styles of the organization (Rosener, 1999), (d) providing female role models and mentors (Catalyst 1995a), (e) improving company image with stakeholder groups, (f) women’s capabilities and availability for director positions (Mattis, 1997), (g) insufficient competent male directors (Burke and Kurucz, 1998), and (h) ensuring “better” board room behavior (Across the Board, 1994). p. 40

Adams and Ferreira (2009) also draw attention to the differences in female and male director contributions, concluding in their recent study that “female directors have a substantial and value-relevant impact on board structure” (p. 308).

2.5.10 Cultural Diversity in the New Zealand Context

Increasingly, in response to calls for equity, boards are expected to have diverse membership to better reflect the demographic makeup of the population beyond gender. As outlined in Chapter 1, major pressure in this area comes from the recognition of the growing ethnic diversity in New Zealand’s population. van der Walt, Ingley, Shergill and Townsend (2006) report on the relative homogeneity of boards of New Zealand publicly listed companies. Yet their study also shows the difficulty of gaining accurate data on the ethnic make-up of boards from publicly available documents, as their assessment of ethnicity was “limited to assessing photographs, education credentials and foreign ownership” (p. 136). Pressure for better representation of ethnic minorities is, however, countered by claims that we must not compromise the principle of merit. In van de Walt et al.’s investigation, though, a high level of board diversity is positively related to profit. Further, the results indicate that where there was a high level of
strategic complexity and low board diversity this could inhibit firm performance, although results did not indicate that a diverse board improved the results in a complex environment. The authors believe these mixed results indicate further investigation of the contribution of diverse boards, including in the state sector, would be valuable.

On a more general note, and in relation to overseas studies, Hillman, Cannella, Jr. and Harris (2003) found ethnic minorities were more likely to come from what they described as ‘community influentials’ than either white females or white males who were more ‘business experts’ (p. 754). While no data is available on this in the New Zealand context, a similar pattern seems likely in this country, especially as with the small population those gaining influence through various community or other interest groups can easily gain a national profile. In relation to those who gain access to the boardroom through such community channels it is pertinent to note Burton’s (1991) point that diversity should not be about those of a different ethnicity or the same skill set, but should be about seeking people who because of their different background and experiences can help address organisational issues in a new way.

In New Zealand the minority indigenous Māori population has a special place in terms of representation and in the legal structures of the country. Consideration of the rights of Māori go back to the Treaty of Waitangi of 1840. This is very much a living document, and has been described in 1990 by the President of the Court of Appeal as “simply the most important document in New Zealand’s history” (in Palmer, 2001, p. 207). Debate over the ‘meaning’ of the Treaty of Waitangi stems from the fact there are in fact two treaties – one in Māori and one in English. As Williams (1989, p. 78) notes, because neither text is a translation of the other “they differ markedly and in respect to the essence as to what was being agreed to”. Essentially, Williams says “The Māori text predicates a sharing of power and authority in the governance of the country between the Crown and Māori. The English text is about a transfer of power, leaving the Crown as sovereign and Māori as subjects”.

Palmer (2001) notes that, while the Treaty has no legal status in itself, since the mid 1980s “there has been increased judicial, academic and political regard for the informal constitutional status of the Treaty” (p. 207). The Treaty also has legal impact through
incorporation into legislation and, as mentioned in Chapter 1, much legislation now makes reference to the ‘principles’ of the Treaty. Government entities frequently refer to the Treaty in their statement of intent. Palmer, discussing the Treaty of Waitangi in legislation, argues that debate over its wording is pointless, partly because the Treaty does not express a contract, rather “it expresses an ongoing relationship, or set of relationships”. Durie (1991) says that “courts and politicians now characterize the relationship as a partnership, denoting the joining of distinct persons in common enterprise” (p. 157).

From the foregoing, it is clear that representation of Māori people, Māori concerns and cultural practices is important across a wide spectrum of political, educational and business practice. Indeed, in relation to the boardroom, Māori may have culturally prescribed, distinctive, approaches to handling governance issues, and imposing formulae relevant to other countries may ignore or overwhelm these local nuances (Jones et al., 2000). Thus it is possible that cultural diversity in the boardroom may present even greater challenges than gender representation.

Cultural diversity is not a particular focus of my study, but nevertheless it is one not to be overlooked or discounted given the New Zealand milieu of the current research. In relation to any research based in the country, we must remain sensitive to the general principle of not imposing the models of diversity relevant to one country onto another country with different cultural composition and perspective (Jones et al., 2000, p. 365). In this regard, a study undertaken by Jones et al. found: “What became increasingly apparent was that this universal set of values could not be easily translated across cultural boundaries as they have the potential to place people in a situation of cultural conflict, compromise, or even a culture clash” (2000, p. 377). Accordingly, focus on New Zealand allows for the country-specific environment to be determined and analysed as well as providing sound comparison for international research.

2.6 Selection Processes

2.6.1 Diversity and Selection

So why, at this point in New Zealand’s history, are there not more women and racial minorities on our boards of directors? Within this changing field of scholarship into
corporate governance, selection processes have been subject to some scrutiny (e.g. Leighton, 2000; Leighton & Thain, 1993; Sheridan, 2001; Sheridan & Milgate, 2003; Westphal & Milton, 2000). Director selection processes are of particular significance to the organisation because of the influence individuals have on the success with which the company undertakes its business. As Hermalin and Weisbach (1988) point out, “understanding how directors are chosen is crucial to understanding corporate organization and governance: who gets selected will, in turn affect the roles the board can play and how effectively it can play them” (p. 589). Calls for more detailed investigation into the recruitment and selection of women directors (e.g. Dobrzynski, 1993) have led to some progress (Bilimoria & Wheeler, 2000; Singh & Vinnicombe, 2004). However, calls to close the gender gap in the boardroom – especially in times of economic crisis (e.g. Monaghan, 2008) – have been largely unanswered. The ‘glass ceiling’ apparently persists, effectively preventing women from enjoying the privileges associated with the executive suite (e.g. Arfken, Bellar & Helms, 2004; Ragins, Townsend & Mattis, 1998).

An emphasis on selection issues associated with board diversity may seem overdue, especially given the number of women in the workforce and the multi-cultural aspect of most countries today. Both social and business arguments that propose selection of boards composed of people with a range of complementary backgrounds, skills and characteristics may seem, on the face of it, logical and convincing. However, among the commentators who have been less than enthusiastic about the drive for diversity in governance, are those who reveal an astonishing lack of engagement with the possibilities of selecting for diversity. For example, Goldstein, Gautam and Boeker (1994) suggested that diversity might undermine board agility and responsiveness, justifying this claim by suggesting that, “as boards increase in size and diversity to fulfill their institutional and governance functions, they may not be ideally suited to taking timely strategic action in response to critical environmental changes” (Goldstein, Gautam & Boeker, 1994, p. 242, my italics). This argument reflects a limited understanding of board diversity, probably more akin to ‘tokenism’. The authors appear to assume that, in fulfilling diversity requirements in board selection, quality will be sacrificed and directors who are also members of underrepresented groups must therefore be additional to the conventional membership. A larger board would be
regarded as possessing the required skills whilst also representing an appropriate
category of diversity (e.g. age, gender and ethnicity).

I have established earlier in this chapter the considerable influence of CEOs and the
strong social and behavioural pull towards demographic similarity when it comes to
director selection. This theme features in the work of Westphal and Zajac (1995) who
reported that:

social psychological and sociopolitical factors lead CEOs and existing board
members to favor new directors who are demographically similar to them and
that the relative influence of CEOs and boards predicts which party is more
likely to realize his or her preferences in the new-director selection process. (p. 77)

Yet arguments for the continuation of established director selection practices tend not to
acknowledge the influence of the non-rational factors. Instead, they hinge on other
aspects, in particular that of the available pool of appropriately qualified directors was,
for many years, limited because men who were the majority of the workforce and the
majority of people who made themselves available for selection. However, with men
and women being represented in similar proportions in the workforce today, the pool is
bigger, and the arguments that previously had currency, are now looking a little ‘thin’.
Canvassing that larger pool of candidates has not occurred automatically, and the
evidence cited previously has provided insight into some of the reasons for this.

There is worrying evidence that demonstrates women and minorities have more difficult
routes to the boardroom than men (e.g. Vinnicombe et al, 2008), that they are
scrutinised more closely and require a greater level of demonstrated skill or competence
than traditional male appointees (Bilimoria, 1995; Bradshaw & Wicks, 2000;
Zelechowski & Bilimoria, 2003). Some, like Hillman, Cannella, Jr. and Harris (2002),
contend that progress is being made, and that advanced educational qualifications can
assist women and minorities in their quest for director selection.

2.6.2 Transparency in Selection
Two dimensions that can impact upon director selection, and therefore influence
diversity in board composition, are legislation (e.g. the Companies Act) and
formalisation. The latter refers to the documentation and review of director selection processes that can happen at an organisational level. Formalisation, which is more common among large than smaller private companies, implies the opportunity for greater reflection on board composition, and is likely to lead to greater transparency. Leighton and Thain (1993) note:

Some companies have a nominating committee handle the process, develop a list of specifications, hire consultants and use rigorous search and screening processes, including personal interviews with candidates. Others, like Global, use an ad hoc process built on an old-boys network, where the board has at best a kind of veto over candidates put forward by the chairman, with the tacit approval of the major shareholder. (p. 19)

However, the same (previously discussed) informal processes that operate alongside the formal, are likely to impact on the ultimate appointments made. In relation to this Leighton and Thain (1993) point out the dangers of traditional practices and board insularity:

Corporate boards have been widely characterized as ineffective, impotent and irrelevant. Most have been criticized as secretive, closed, narrow and inbred, removed from the realities of the society that surrounds them. The traditional methods of selecting directors to sit on corporate boards tend to reinforce this picture and make change very difficult. (pp. 19-20)

And government entities may be similarly ‘closed’ in their approach to director selection. McGregor (2000) observed that: “The extent of political bias in [NZ] crown company appointments warrants further analysis. Its operation is notoriously opaque and covert.” (p. 134). However, McGregor conceded: “But political interference and influence aside, overall women have fared better in the radical experiment with crown companies than in the private sector” (2000, p. 134). This observation is lent weight by recent New Zealand research. Jayne (2007) studied 1400 small to medium enterprises in New Zealand and findings suggest that that existing practices (and by implication, board gender profiles) are likely to be perpetuated:

In about 65 percent of cases, only current board members and management get involved in selecting new directors – and that potentially limits the search to
what is already known. In other words, people are opting to stick inside the social comfort zones. (p. 35)

Since women are perhaps less likely to be part of the informal business networks, it is unsurprising that they turn to more official or formal means for seeking board appointments. Commenting on gender representation on public funded boards in Scotland, McTavish and Pyper (2007) found that communications channels may have an impact on board recruitment. Their work suggests that women go through more formal channels than do men, claiming that:

women were more likely to have been alerted to a board post by newspaper advertisement (41.7 per cent compared to 26.8 per cent for men) whereas men were roughly twice as likely to have been notified by personal contacts (44.3 per cent compared to 20.8 per cent of women). (p. 228)

2.6.3 Selection and Director Training

Director training is feature of the international and New Zealand governance associations, but it does not stand out as having been strongly scrutinised in the governance literature. Perhaps this is because training is not widely available, or perhaps aspiring directors have not seen it as important. In his 1990 United Kingdom survey, Coulson-Thomas found that: “Over nine out of ten respondents had either not received any preparation for the board or had been prepared by such informal means as “experience” (p. 29). Coulson-Thomas (1990) was referring here to preparatory training [not] received by current directors before taking up their governance roles. At that time, however, there was already an official awareness of the need for development opportunities. For example, the Commonwealth Association for Corporate Governance (CACG) Principle 11, Board Performance Assessment, stated: “The board should regularly assess its performance and effectiveness as a whole, and that of the individual directors, including the chief executive officer” and added in the explanatory section that: “Training opportunities for existing and potential directors should be identified and appropriate development undertaken” (Commonwealth Association for Corporate Governance, 1999, p 13). Similarly, New Zealand’s Institute of Directors (IoD), established in 1968, has as its mission to “enable and encourage New Zealand boards and board members to add value to their organisations and adopt the highest standards of corporate governance” (Institute of Directors, n.d.). The Institute of Directors today
presents a series of professional development programmes tailored to the governance role including a course on governance essentials and one aimed to augment the skills of experienced directors.

Content of training programmes may emphasise a range of different aspects of the director role. Lauer (2008), a Corporate Counsel in America, recently described legal-technical training in relation to the legal environment in which companies operate, and particularly the liabilities that directors face. Lauer expressed the need for directors to be fully informed of “rules regarding directors’ conflicts of interest, insider trading and anti-trust concerns” (p 754). In New Zealand, this ‘self-protection’ orientation is also a feature of CCMAU’s training, into which McGregor (2000) provides an intriguing personal insight, after attending a training programme and reporting on it.

McGregor (2000) described the CCMAU training as “intensive” (p. 135) and going well beyond the legal-technical aspects of governance. Training covered: “boardroom practice and relationships, strategic planning, evaluating performance, financial reporting, legal duties and working on a Crown company board” (p. 135). It was a comprehensive programme of, in McGregor’s words, “‘hard’ and ‘soft’ skills development” (p. 135). In 2006/2007 CCMAU reviewed its training programme and currently contracts Massey University to deliver professional development courses.

Although CCMAU provides training for both newly appointed and serving directors, it does not target appointees for support and encouragement as they enter governance positions nor does it tailor professional and personal development. This targeted approach is reflected in other business contexts where it can be enacted through professional supervision, mentoring, coaching or internship programmes (as reported by Beenen & Mrousseau, 2010; Cook, Gibson, Williams & Douglas, 2009; Hales, Wiener & Lynn, 2007; Klaus, 1981). With these arrangements, new appointees (or mentees) can be matched with either formally trained mentors or professionals in the field, (in this case, governance). Typically, opportunities are provided for regular meetings to discuss issues pertaining to the role and for the new recruit to develop the confidence and capacity to operate effectively and independently. Apparently, “Coaching can shorten the learning curve of those with new roles and help them adapt more quickly to a changing environment” (Sweeney, 2007, p. 171). Coaching, Sweeney argues,
“enhances skills and ability and can raise a person’s game. It gives individuals the opportunity to review themselves, their performance and identify where enhancements can be made” (Sweeney, p. 172).

Correspondingly, Jayne’s (2004) exploration of the value of coaching had earlier presented some fairly hefty claims for the business benefits:

A recent MetrixGlobal survey found business coaching produced a 788 percent return on investment and significant intangible benefits to the business. A Personnel Management survey found that training alone increases performance by around 22 percent whereas training plus coaching lifts productivity by 88 percent. (p. 47)

Furthermore, Jayne provided examples of successful coaching arrangements within New Zealand companies, such as Vodafone, Auckland City, and the Waikato District Health board (2004, pp. 49-50). She noted that “at least 1200 [coaches] are registered with Business in the Community” (2004, p. 47) but also that any successful coaching programme needs someone who “has the appropriate credentials [and] is the right fit in terms of current coaching needs” (p. 47). A cautionary note is sounded in the feedback from one consultant, who hints at the difficulty of sustaining coaching benefits:

The problem with sending people to expensive, one-off workshops is that any application of what they’ve learned tends to evaporate once they’re caught up on their usual workaday world. (p. 50)

Other observations suggest that coaching and other coaching-like training components warrant consideration. Mentoring, for example, is an established practice in executive roles within the federal government in the US, with Klaus (1981, p. 493) reporting that recipients appreciated “a special opportunity to obtain career development guidance … [and to broaden] their perspective on executive life”. Similarly, Arnold and Davidson (1990) interviewed 30 managers in an attempt to identify strategies that assist progression of women, in particular. They concluded that “mentoring is an important training and development tool for the career success of both men and women managers” (p. 17). Allen, Eby, Poteet, Lentz and Lima (2004) conducted an analysis of research on mentoring which had featured for three decades (1970s to 1990s) to discern whether claims about the benefits could be substantiated. They stated: “For the most part, the
results of the present analyses shed positive light on the benefits associated with mentoring” (p. 134). Virtual mentoring using new technologies provides a flexible alternative. Headlam-Wells (2004) conducted an e-mentoring project in the United Kingdom for aspiring women managers and concluded it was “a valuable complement to other forms of mentoring,” (p. 216).

Burgess and Tharenou (2002) signaled the value of women in governance as potential mentors: “Corporate women directors are also thought to serve as role models (Catalyst, 1998a), mentors and champions for high performing women” (p. 40). Bettridge, (2009) discusses the value that individualised training can provide in the governance realm:

The new generation of corporate governance also requires that individuals and teams have the self-reflective capacity and conscious approach to their own mission and development that will enable them to take leadership roles in these increasingly complex circumstances. Coaching can play an important role in the engagement process which is critical to building an appropriate culture in support of a new strategic direction. (p. 11)

A cautionary note should be sounded in that setting up training opportunities also establishes expectations that, if the training is focused on actually attaining board membership, may not be met. For instance, McGregor (2000) noted that at the end of a two-day director training course she attended, another woman participant contacted her and asked “What next?” (p. 138), adding:

What strategies should we use to get positions – it wasn’t good enough to tell us ‘it’s all about knowing the right people’. If you are going to have affirmative action in the form of free training you need to take the initiative further. (p. 138)

This observation also highlights that, as for their male counterparts, social networks, or the personal ties, with other women, and ‘knowing the right people’ (McGregor, 2000; Burgess & Tharenou, 2000) are acknowledged aspects of women achieving governance positions and perhaps some informally conveyed governance ‘know-how’. Burgess and Tharenou (2000, p. 123) attached some significance to these “ties with other women going through the same circumstances”, reporting that the bonds women have through their interaction together, impact positively on the advancement of women (much as I
have demonstrated that men’s bonds with men impact positively on the advancement of men).

Notwithstanding training benefits and the opportunities described above for fresh approaches, the complex ownership structures and coinciding interests of major shareholders of most large private companies may not lend themselves to responsiveness or change in relation to board composition, training and selection processes. However, more closely held companies, or those directly influenced by government directive may help break down some of the barriers to change in boardroom composition and culture and be open to innovations such as those suggested by Bettridge (2009). We could speculate as to how much more open to new training and development opportunities Crown companies might be, since they are so strongly influenced by Government. The juxtaposition of legislative control, formal training, coaching and/or mentoring, combined with both structured and informal selection processes and the power of Ministers regarding director appointments may mean Crown companies can pave the way for novel governance training practices.

2.6.4 Political Influence in Crown Company Board Selection

While power and politics are themes that have implicitly infused this discussion so far, they are overtly featured in appointments to Crown Company boards. Thus politics in relation to this section refers to Government legislation and initiatives relating to Companies in New Zealand and, where relevant, those specifically pertaining to Crown Companies. Politics in this sense is governmental influence and legitimate oversight in the way in which Crown Companies function. And governments in New Zealand have claimed equality of opportunity for all New Zealand citizens. But politics refers also to the more informal political tactics used by those explaining how some things may or may not happen in board meetings or general operating of the company: politics is about the exercise of power.

So how can Crown Company boards ensure that board composition reflects social as well as business imperatives? In Norway, quotas have apparently worked well in ensuring increased board participation of women in public companies (Hoel, 2008). In New Zealand, Shipley’s ambition for balanced representation of women and men on Crown Company boards has not yet been realised. The process for director
appointment in New Zealand Crown Companies involves final sanction from the Minister responsible for the company. This Minister makes a decision after the recommendations have been through the Government Appointment and Honours Committee. It is at this point that, regardless of qualities, skills and experience, merit on any other grounds, gender and diversity, the recommendation made by CCMAU is accepted or rejected. An explanation of relevant literature on this topic follows.

2.6.5 Government Directives and Legislation

Equal employment opportunities developed in New Zealand, and captured in various legislative artifacts, impact on the approach the Government expects, and CCMAU must comply with, in terms of selecting and appointing directors. CCMAU emphasises selection and appointment “based on the best-qualified person who is defined as the candidate whose skills and experience best meet the responsible Minister’s assessment of the skills profile for the vacancy” (CCMAU, 2002, June, p. 18). This is compatible with merit which Wheeler (2001) noted when reviewing identification and screening criteria used by CCMAU, stating: “There are no grounds for moving from merit in terms of core competencies and skills as the overriding criterion for appointment to the board” (p. 4) and which he later upheld in 2003 when conducting a second review of CCMAU’s processes noting there was wide acceptance of appointments meeting merit criteria as a pre-requisite (p. 40).

With legislation compelling all companies to comply with governance arrangements, and with Government directives to CCMAU regarding Crown Company board composition and diversity, there is a political influence beyond the legislative arena. Shilton, McGregor and Tremaine (1996) concluded from their study that:

in the New Zealand experience changes to government policy, deregulation and corporatization have influenced the number and status of women on boards. There now exists a clear disparity between gender representation on the boards of Crown Companies and of corporate companies. (p. 26)

Indeed, over a decade ago it was observed that: “Female representation on corporate boards of directors is increasingly becoming a political issue in New Zealand” (Pajo, McGregor & Cleland, 1997, p. 174). Evidence from the latest census, and moves by the
current governments to close down a review of pay equity, might lead us to question what form that political issue is now taking.

In 1999 the State Services Commission in New Zealand prepared a review of Crown Entity board appointments and induction processes and noted such appointments:

are very important both because the quality of the board is of crucial importance to the performance of the entity, and because they provide Ministers with considerable influence over Crown entities. (1999, p. 3)

This is further testament to the political impact on the appointment of directors. The State Services Commission also observed that the variation in processes used for appointment of directors “is due less to differences in the nature or significance of the entities themselves than to … Ministerial preference” (1999, p. 7), leading to a notable lack of clarity around the process, and calls for greater transparency (McGregor, 2003).

Paul Smith (2001) has also commented in relation to the New Zealand situation and noted “Wherever there’s debate on governance and appointments there’s one point of agreement however, Directors should be appointed on merit” (p. 51). He then qualified the statement, stating: “Non-commercial merit factors like gender balance, ethnic representation and diversity of professional background should be explicitly spelt out” (Smith, 2001, p. 51). These observations indicate the trend in thinking in New Zealand about directorships and merit.

Agrawai and Knoeber (2001) refer to political factors in director appointments and point out that “there also may be an entirely different political role for outside directors. If diversity is particularly valued by those in government (as it seems to be valued by some institutional investors), board diversity may work directly to curry political favor” (p. 194). This comment illuminates the political process that operates less transparently but which, nonetheless, is influential.

2.7 Commentary

New Zealand is not a major player in terms of business worldwide, and there is only a small body of research into corporate governance in New Zealand. Predictably,
research into organisational governance tends to focus on public companies and takes place within North American or European contexts. The dearth of published research into directors’ own perceptions of selection processes, within New Zealand Crown Owned Companies in particular, suggests an interesting opportunity for enquiry. Further, the commercial model that underpins New Zealand Crown Companies offers a point of commonality with other companies nationally and internationally, and hence the potential to provide useful insights beyond the immediate object of study.

This literature review has, of necessity, ranged widely. It began by elaborating on some of the governance themes introduced in Chapter 1. This led to the inevitable question of why people participate on boards. The answer to this appears to be changing with changes to the international business environment, and is likely to be somewhat context-specific.

In providing a more comprehensive foundation for ongoing investigation, the chapter then introduced and developed a number of common themes in relation to director attributes, board composition, diversity in the boardroom and board selection processes. These have been explored in both national and international research into boards of directors. In particular, the chapter highlighted literature that dealt with the specific New Zealand context within which this thesis is framed. Again, differences in the research findings surveyed in this review reflect the varying orientations of the studies, the countries and cultural circumstances in which the studies occurred, as well as a raft of other factors. However, they tend to share the recognition that a range of skills is required by an effective director; from the specific and technical to the more interpersonal.

Broadly, the literature into corporate governance reveals that director selection is based on an array of issues and is inevitably affected by the incumbents who make up the existing board. As my discussion reveals, the CEO can have considerable influence on selection, and executive directors can change the board dynamics. In relation to New Zealand Crown Company boards, where CEOs cannot be directors, the question of CEO influence on the selection of Board members will be a theme to be pursued with interest.
Central considerations associated with director selection include the attributes and experience of individuals, the type of company and the environment in which the board operates, ownership and majority shareholding, legislation, as well as government affiliation of the board member and the associated obligations and influence. Further to these themes, there are questions as to the ideal size and composition of boards.

As is evident in this chapter, diversity has been an increasingly common focus of research interest. Challenging the homogeneity of boards may be a way of ensuring that a relevant and capable pool of directors can be chosen to govern the organisation. Yet the research literature shows us that both theoretical and practical issues relating to board diversity are complex. Group dynamics affect the way in which the board works together, and diversity brings with it the potential for complex human behavioural responses which might contribute to productive or unproductive consequence, some rooted in personal ignorance and inexperience, some in broader cultural understandings and expectations.

Given the insularity of boards, and the strength of prevailing board selection practices, it seems evident that the most convincing arguments for board diversity will be those that are founded on commercial imperatives. Whatever the issues, board diversity is a matter attracting intellectual interest as a means of addressing the challenges of the contemporary organisation. The role played by non-executive directors is ostensibly to provide for independence and a less homogenous board. Yet, how much greater would be those strengths if the board had more cultural diversity and gender balance?

2.8 Conclusion

From literature examined in this chapter, it is apparent that traditional practices around director selection still dominate, but they may be changing. There has been recent attention brought to bear on the need for an ethical basis to governance. Further, calls for diversity in the boardroom that may once have been, at best, considered a minor irritant to the smooth-running of boards, are now more commonplace. There is reason for optimism as researchers explore the positive potential of diversity and to propose practices that will enhance future organisational governance.
While still in its infancy in terms of scholarly enquiry in New Zealand, the subject of corporate governance does carry with it a number of key associations. In particular, reflecting a world-wide trend, it is usual to associate board membership in New Zealand with male subjects. Also, it is clear that much of the debate focuses on the divisions between governance and management, an ill-defined distinction that continues to be blurred because of a preference for appointing retired CEOs who have intimate knowledge of the management role and who may not always disassociate themselves from that role, and for appointing those from the ‘old boys’ networks’.

What is perhaps most relevant for this study is the consistent awareness that any and all of these factors may be operating within a given group. Depending on the individual and collective capacity of members, these factors may contribute to the perceptions directors and specialist commentators have of governance and how it operates.

The review indicates that internationally, and particularly in New Zealand, there is still much to be explored in terms of governance practices and the people who enact governance roles. Although New Zealand Crown companies are likely to enjoy similar challenges to (and indeed share membership with) boards of public companies, in some respects New Zealand Crown Companies present a ‘special’ case of governance practice. However, Crown Company Boards are the focus of government initiatives to increase diversity and therefore offer fertile ground for this research study.

The next chapter sets out the research design for my investigation into the major determinants of board selection, composition, director attributes and diversity in New Zealand Crown Company boards.
CHAPTER 3: RESEARCH DESIGN

3.1 Introduction

Chapter 2 provided a brief overview of salient literature regarding corporate governance, board selection and board composition. Against a backdrop of international studies, the review establishes that scholarship into New Zealand corporate governance is in the early stages, with little known about the informal processes of director selection and those applying to Crown Companies in particular. Further, despite its high-profile in business literature, appeals to those involved in all aspects of governance for attention to diversity and gender balance, plus government directives that these should be part of director selection processes, the subject of corporate governance raises as many questions as it answers.

Additionally, the New Zealand context evolves from a unique set of political, legal and economic circumstances that brought massive changes to the state sector post 1984, and led to the establishment of a number of state owned (Crown) enterprises. More recent changes to the legislation relating to companies demand increased personal accountability from directors and, arguably, greater professionalism. Accordingly, the enhanced emphasis on responsible governance, the emergence of bigger companies and related financial investment, and the changing demographics within New Zealand have stimulated a revision of how these new challenges should be addressed.

In 1998 Prime Minister Shipley boldly proposed that there be a greater representation of women on New Zealand boards. She made a pledge through the Ministry of Women’s Affairs, “to improve the proportion of females on statutory boards to 50 percent by the year 2000” (McGregor, 2000, p. 129). This ambitious target stimulated a focus on board diversity. Subsequent to this, the Hon. Ruth Dyson, Minister of Women’s Affairs, published the Action plan for New Zealand women (2004). The Ministry of Women’s Affairs undertook to be the lead agency to “achieve 50/50 representation on Government Boards by 2010” (p. 11). Thus Shipley’s initiative was woven into the fourth Labour Government’s strategy. The Crown Companies Monitoring Advisory Unit (CCMAU) as the agency directly responsible for overseeing the boards of New Zealand’s State Owned Enterprises, adopted a codified director-appointment process,
“an important feature of which is to formalise Ministers’ expectations for board competencies and skills” (Olsson & McGregor, 2004, p. 30).

New Zealand’s distinctive business milieu thus positions Crown boards as somewhat representative, yet distinctive, objects of study. This chapter begins with reference to the aims and objectives originally set down in Chapter 1. From there I briefly address the theoretical foundation of the qualitative interview process. The chapter then details interview schedule development, the sample selection process, ethical implications and the interview analysis process.

3.2 Aims and Objectives

As outlined in Chapter 1, the question guiding this study is:

*What are the major determinants of board selection, composition and attributes in New Zealand Crown Companies, from the perspectives of Crown Company directors and specialist commentators?*

Specific aims of the study have been presented in Chapter 1. The purpose of the director interviews was therefore to:

- Explore reported reasons for becoming a directors;
- Gain insight into the current demographic composition of New Zealand Crown Company boards (e.g. ethnicity, age, gender, experience);
- Ascertain directors’ perceptions of the selection processes for Crown Company boards;
- Establish what directors perceive to be the skills, knowledge and expertise required of effective board members;
- Explore the perceived impact of diversity (especially gender diversity) on board performance.

The objective of specialist commentator interviews was to provide an additional and informed perspective in the areas of selection processes, skills, knowledge and expertise needed on boards and the perceived impact of diversity on board performance.
3.3 Interview Methodology

A broadly qualitative research approach was chosen for this study. Edlin (2007) says that studies of boards have generally used quantitative methods, despite questions from a wide range of researchers about the effectiveness of quantitative methods in drawing meaningful conclusions about board processes. These researchers argue that qualitative research can “provide a richer description of the dynamic complexities” (Edlin, p.120). To a certain extent, as Hallebone and Priest (2009) argue, the qualitative/quantitative dichotomy is a sterile one and the crucial choice is a frame of reference and research question. The frame of reference for this study is essentially positivist, in keeping with much of the research on which it draws. In-depth interviewing, a qualitative method, was selected as the most effective way of answering the research question.

Further validation for the approach lies in Finkelstein and Mooney’s (2003) instruction that in order to gain understanding of board effectiveness researchers need to “talk to the people who sit on boards” (cited in Edlin, 2007, p. 120). The perceptions of individual professional directors on a variety of issues around selection, composition, diversity and director attributes can add to the knowledge of how boards (in this case Crown Company boards) work.

Interviews have been described as one of the most effective ways of collecting data in the social sciences (Crowther & Lancaster, 2009) and a plethora of business research books place interviewing as a mainstream investigative method. A number of researchers (e.g. Cresswell, 1994; Cassell & Symon, 1994, 2004) have discussed the assumptions associated with an orientation toward qualitative research. These include the comparative flexibility of qualitative procedures over quantitative procedures and the tendency for the qualitative researchers to acknowledge their own subjectivity in interpretation of data, as compared with quantitative researchers’ preference for a more impersonal, seemingly objective, orientation.

However, Kvale (1996) suggests that the differences between qualitative and quantitative approaches are not clear-cut, and my choice of the interview coupled with content analysis (understandings and applications of which span both quantitative and qualitative) exemplifies that position. Therefore, the chosen approach, although mainly
qualitative, in fact relies on aspects of both qualitative and quantitative approaches – what Cresswell (1994, p. 177) refers to as the ‘dominant-less dominant design’. Lee (1999) has suggested that this combination may be the “most practical combination” among three alternative design approaches suggested by Cresswell.

The main approach to data collection in this study is the interview – characterised as a ‘conversation with a purpose’ (Holloway, 1997). It has long been established that a significant and legitimate part of managers’ work consists of conversations or ‘talk’ (Gronn, 1983; Mintzberg, 1980; Weick, 1979). The in-depth interview methodology is therefore likely to be a process congenial to directors of boards and the specialist commentators, all of whom are associated with business at a senior level and many of whom were likely to have management experience. In turn, the choice of the semi-structured (focussed) interview technique was primarily a response to the belief that directors were likely to be busy people. A focussed interview approach would optimise the chances of covering all major themes identified in the literature within a reasonable timeframe, while allowing for some flexibility in following up interesting new avenues of enquiry as they emerged (Bogdan & Biklen, 1992).

The interview design, explained in detail below, perhaps most closely meets Patton’s (2002) description of the standardised open-ended interview. Patton says “This approach requires carefully and fully wording each question before the interview” (p. 344). This ensured that, to the greatest extent possible, each interviewee was asked the same question. Importantly for this study, it allowed the researcher to approach the same issue several times at different stages within the interview. This recognised that when a new issue (for instance, diversity) was brought up, this could raise fresh responses to earlier questions (such as attributes needed by directors).

Patton (2002) outlines the import of open-ended questions and the key distinction from the closed questionnaire used in quantitative studies:

The interviewer never supplies and predetermines the phrases or categories that must be used by respondents to express themselves...The purpose of qualitative interviewing is to capture how those being interviewed view their world, to learn their terminology and judgements and to capture the complexities of their individual perceptions and experiences (p. 348).
The relationship between the interviewer and participants is at the heart of the interview method (King in Cassell & Symon, 2004) and the establishment of rapport with the participants is crucial to the way in which the interview flows, information is phrased and additional comments offered. In general, the interview process is associated with well-recognised strengths such as the ability to discuss both highly specific and much broader issues within the one conversation (King, 2004, p. 21). In this particular research, the interview format also enabled the participant to relate a story of his/her experience as a director that stood out in their memory. However, in line with well-documented disadvantages, the process was time consuming for both interviewer and participant, and the data, though rich, was of considerable volume (King, 2004, p. 21). In order to address the possible overload of data, a decision was made to audio-tape then transcribe, verbatim, all interviews (see Chapter 4).

3.4 Interview Schedule Design

Patton (2002) acknowledges that his interview categories represent pure types and that interview studies employ a number of strategies. Therefore the interview design consisted largely of open ended questions, but began with a series of closed-ended demographic questions. The comparative simplicity of providing personal details is often an effective way of putting participants at ease at the beginning of the interview process (Bogdan & Biklen, 1992, p. 98).

In the face to face interviews, interviewees initially filled out a short demographic data sheet. Where interviews were conducted by telephone I went through the form and completed the sections as the participants directed. Information sought covered ethnicity, gender, age, domestic responsibilities, educational qualifications, position title, reimbursement range, board demographics, and details of personal governance experience (as interviewees had often served on several boards).

The semi-structured interview schedule (see Appendices 1 and 2) consisted of more than 30 questions developed from the literature. The questions were open ended to allow the participants to provide their own views, rather than give a ‘prompted’ response. Several of these tackled the same topic from a slightly different angle to better explore the participants’ perceptions. Re-framing questions provides an
opportunity to re-visit a topic when the participant has had time to consider issues more fully than when it was first introduced. This also provided the opportunity to identify any contradictions. Silverman (2000) says it is as important to note consistencies in responses, which may indicate a measure of validity or consensus to a perspective, as it is to note inconsistencies that may indicate a concern to provide what is perceived as the correct or expected answer. This approach also alerts us to differences between participants in interpreting information and the meaning attached to words.

The questions were arranged within the following theme areas. Two questions covered why people became involved in governance and whether the experience of governance had been as the interviewee imagined. Five questions asked interviewees for their views on the various skills, qualities, knowledge and attributes required of directors.

Another two questions related to processes of director selection in the public sector in New Zealand, and views on advantages and disadvantages of the process and asked interviewees to compare public and private director selection in their opinion. Four further questions were related directly to politics: perceptions of the role of the shareholding minister in the appointment process; the effect of changes of government; and views on the transparency of the government appointment process. Because of their specific focus on the New Zealand governance environment, these six questions were analysed together as a group within the overall context of New Zealand selection processes and the impact of politics.

Three questions addressed issues of information and support for director selection with specific focus on the identification and screening criteria used by CCMAU, any use interviewees may have made of publicly available information material and any changes they would like to see in the director selection process.

Two questions covered the influence of CEOs in director selection and asked participants to for their views on directors selected by CEOs. Two questions covered training; whether training was required and what training interviewees themselves had undertaken. Interviewees were also asked for their views on the contribution of independent directors and the best size and composition of boards.
Seven questions probed for perspectives on factors pertaining to board composition and diversity, the merit principle and the *Wheeler Report*. Interviewees were asked for their views on the contribution of legislation, particularly the 1993 Companies Act, to governance in New Zealand.

Finally, interviewees were asked two questions which encouraged anecdotes. They were asked what advice they would offer people who wished to become a director and they were asked to tell a story that stood out for them in their experience as a director.

In each case the questions were informed by the literature. From the commencement of the thesis, a range of literature was canvassed pertaining to selection processes, board composition and director attributes within the general governance arena. This literature provided a body of comment on and around those areas that provided a resource from which to draw, in devising questions for this study, based within the New Zealand context and focussing on New Zealand Crown Company boards. The way in which questions were framed encouraged participants to share their perceptions of the issues raised. In essence, this approach meant that, from a base of national and international research, the research question could be explored and the views - the perceptions - of those intimately involved in governance within the New Zealand sector (directors or specialist commentators), could be ascertained.

### 3.5 Sample Selection

Because the thrust for women’s representation on boards and board diversity has been championed by government ministers and operationalised through CCMAU, New Zealand Crown Company boards were selected as the focus of this study. The 34 Crown Companies (in 2003/04) also provided a sizeable but distinctive population of board members. Due to the high level of transparency and accountability required of public boards and the routine and on-going monitoring, it was surmised that directors of these boards might be more conscious of issues of skills and diversity.

The sample also provided an incidental insight into the broader picture of governance in New Zealand as many of the individuals who took part in this study also served on a variety of public and private boards in New Zealand.
To provide a supplementary, informed perspective on board selection, diversity and attributes, it was decided to also interview a selection of knowledgeable, experienced and authoritative administrators and selectors. These individuals came from the public and government sector. Some have experience on various types of governance advisory organisations while others have private sector directorship experience and/or represent the Institute of Directors. Several were recommended by other directors and those who had already been interviewed who thought their expertise and balanced perspective would benefit the research. Throughout this study these participants are differentiated from the focal population of directors and are referred to as specialist commentators.

3.6 Interview Procedure

Initial clearance for interviews was obtained from the Massey University Human Ethics Committee. The process followed is designed to comply with the Committee’s requirements of informed and voluntary consent, and general respect for people which involves “…recognition of the personal dignity, beliefs (including cultural and religious beliefs), privacy and autonomy of individuals and the provisions of special protection of those persons with diminished competence.” (Section 9, Respect for Persons, MUHEC Code of Ethical Conduct for Research, teaching and Evaluations involving human participants.)

A letter and information sheet was sent to board chairs of all the 34 companies monitored by the Crown Company Monitoring Unit (CCMAU), inviting board chairs and/or directors to take part in the research. A further 28 letters were sent to specialist commentators, who had director selection responsibilities or who had general governance experience.

A pilot interview was conducted in November 2003 with a participant experienced as both a director and board chair in the public and private sectors. Following the pilot interview and feedback from the interviewee there were minor adjustments to the interview questions and several were simplified. The pilot interview with this specialist commentator has been included with the data.
A total of 40 interviews were conducted, with 43 participants, between November 2003 and March 2004. Three interviews involved two specialist commentators who participated equally during the interview. Twenty five interviews were face to face and were conducted in Palmerston North, Wellington and Auckland. This method yielded 28 participants (because of the three cases where the specialist commentators chose to be interviewed with a colleague). The other 15 participants were interviewed individually by telephone.

From the group of 23 Crown Company directors interviewed, some served on or chaired more than one Crown Company, and most also had directorships on other boards both private and public sector. This meant that their total experience in governance generally, and as directors specifically, was comprehensive. From the 34 Crown companies 23 participants were interviewed. Eleven of these chaired Crown Companies. Altogether, participants at that stage represented 21 of 34 Crown Companies then in existence (and some had previously served on additional Crown companies). Further details of the sample participants are provided in Chapter 4.

One female director, while not fitting the strict description of a Crown company director, was a director of a Crown entity, fully owned by the Government, making the differentiation technical more than actual. She was accorded Crown director status for the purposes of this research.

Twenty specialist commentators took up the invitation to participate in the study. They represented a wide range of administrative, private directorship and governance experience. Eight of the specialist commentators worked for Government ministries involved in board and other appointments. Between them they represented six Government ministries. Four were office holders in organisations representing directors and involved in their training or recruitment. Three had knowledge of and experience in the oversight of boards in the public and private sector. Additionally, five of the interviewees were women who were serving as directors in a wide range of private companies. These women were selected for this research both to provide a viewpoint from the private sector and because of the project’s emphasis on diversity.
Participants chose where they wished to be interviewed. Most interviews took place in the participants’ business offices, four chose to be interviewed at home and one participant was interviewed at another location of his choice. Interviews lasted between 30 and 90 minutes and all participants agreed they could be recorded. Tapes were given an identifying number to help ensure anonymity and confidentiality.

3.7 Data Analysis

In line with accepted practice (Lee, 1999), taped interviews were transcribed verbatim and checked against the original tapes for transcription accuracy. The transcription process enhanced data accessibility and facilitated analysis. Each interviewee was asked the questions, shown in the interview schedule in Appendices 1 & 2. All interviewees were asked the same questions in the same order, with the obvious exception that the specialist commentators were not asked about the make-up of their current boards, their remuneration, nor about their reasons for becoming a director or involved in governance. Occasionally, in my role as interviewer, I asked a probing, or follow-up, question to elucidate a response (Polkinghorne, 2005). However, this was rarely needed as the participants were generally articulate and happy to talk about their experiences and views. The resulting quite structured and similarly shaped interview transcripts made a systematic ‘coding’ analysis relatively straightforward.

Written transcripts of the interviews were examined line by line, to identify key words and common themes in responses that were then grouped into categories (Holton, 2007). Essentially, as each response was read, the exact word or phrase was recorded against the code number for that participant. Where descriptions were provided, they were summarised into a key word or phrase. For example, a description of what was done prior to the meeting in relation to reading papers and understanding issues raised for discussion at the board meeting, was categorised as ‘preparation’. Once the key words or phrases were logged from each response, the whole set was read, counted and put into a table. This process enabled patterns to emerge, such as use of the same words. For example, one person may have said: “ask key questions” and another may have said: “ask important questions”. Both responses were grouped into the one category “Ask key questions”. As all responses were logged, there were cases where categories had only one or two entries. This detail was provided to ensure a
A comprehensive set of perceptions was recorded and to prevent arbitrary generalisations (Morrow, 2005). From these groupings/categories, responses were tallied by gender and participant grouping (i.e. Crown director, private director or specialist commentator) to provide further detailed analysis. This also provided a frequency count to ascertain the extent to which respondents held similar views - essentially, as articulated in the research question, the perspectives of Crown Company directors and specialist commentators on each of these issues. This form of analysis was used for all of the interview questions.

While the interview data itself is not quantitative, categories were counted for clearer presentation. This “by hand” analysis largely mimicked the identification, coding and counting process that occurs with qualitative analysis support packages, such as the HyperResearch data analysis package. I chose not to use HyperResearch as I believe it is best used for grounded theory approaches (Glaser, 1992) which allow categories to surface from interviewees’ own words. In this case, the initial coding was conducted in close relation to key question areas which in turn had been derived from theory and previous research in the area. Once initial categories were established, the whole transcript was searched for further comments relative to each emerging theme in the recognition that participants in the course of the interview were likely to revert to, and elaborate on, earlier comments or in the process of answering another question recall other relevant additional information in relation to earlier questions. A ‘by hand’ analysis was also deemed more appropriate in this project as I wished to always review each response in its full interview context. Further, the characteristics of each interviewee were important in the analysis. Such relevant characteristics were, for instance, gender, experience in private sector governance as well as public sector governance, particular focus or position of specialist commentator. Investigation without the support of software was therefore regarded as helping produce a more nuanced analysis.

Questions had also been developed from the literature and were in turn linked to key themes identified in the literature as relevant to director selection, as explained above and in Section 3.4. Each answer was analysed across the participants and common categories were identified. The coding process was informed largely by the use of key words. These were then often grouped into slightly broader categories. In the
following chapter (Chapter 4), descriptions of the categories and how they were formed are explained and further clarified, supported by quotations from the interviews. Although this is qualitative data, a frequency count was undertaken, allowing for a quantitative approach within this process. The directors’ comments were separated from those of the specialist commentators. As the project highlights aspects of board diversity, particularly gender diversity, the responses and comments of male and female directors have also been coded and cumulated separately to see if they show any differences.

Whilst this quantification of the qualitative interview offers one way into the data, Brewerton and Millward (2001) point out the importance of qualitative content analysis that places the “emphasis on meaning rather than on quantification” (p. 152). Consistent with this approach, has been the careful examination of the context within which comments were made and the use of illustrative quotations in presenting the data. Further, the interviews also contained the opportunity for the participants to tell an illustrative story from which themes emerged.

3.8 Limitations of the Study

No research undertaking is without limitations, and those associated with this study will be elaborated in Section 6.7, as will my reflections on criticism regarding the possible shortcomings. In summary, however, acknowledged limitations relate to a number of key areas of the research: first, it could be alleged that there is a decided lack of cultural diversity within the pool of participants; second, my decision not to employ scientific content analysis software in favour of close, personal engagement with the interview data, opens me to the charge of undertaking a less than ‘objective’ analysis of the data; third, inherent in the face to face interview technique for data gathering is the possibility of the interviewer’s presence leading to distortion in the actual responses; fourth, the time lapse between data gathering and this final analysis may open the study to accusations of the research being ‘dated’; and fifth, some may question the value of the research in terms of its specialized focus on New Zealand Crown Companies, a focus which might limit the application of findings to a wider governance sphere.
3.9 Conclusion

I have chosen to investigate the perceptions of New Zealand Crown Company directors and specialist commentators via in-depth interviews. This approach elicits rich data which may be analysed both quantitatively and qualitatively to provide greater depth and insight into complex social phenomena.

The next chapter describes in detail the interview pool and the responses to the interview questions. The demographic information was gained through the data sheets that each participant completed (or responded to in the case of telephone interviews).

The interview questions enabled the exploration of key themes that underpin the focus of this research and form the second part of the chapter. These themes covered: why people became involved in governance; qualities, skills and attributes needed by directors; the role of Chief Executive officers; New Zealand selection processes and the impact of politics; legislation; information and support for director selection; training; and board composition, diversity and the current legislative environment.

The themes are discussed in relation to views from each main group – Crown directors and specialist commentators. Additionally, differences in responses between men and women participants are analysed.

As noted in Chapter 1, research into selection processes, board composition and director attributes has attracted attention from various researchers nationally and internationally but the overall body of research remains small. The perceptions of directors themselves, and specialist commentators involved in governance, has an even smaller resource. Thus, this research, as an exploratory study of the actual perceptions of those involved in governance, is timely and relevant, particularly given the national and international factors, such as the financial crisis of 2008/09, which have influenced business direction and operating procedures and which have heightened awareness and scrutiny of all sectors of the population.
CHAPTER 4: RESEARCH FINDINGS

4.1 Introduction

This chapter reports the results of interviews conducted in late 2003 and early 2004 with 43 participants. Twenty three of the participants were in the Crown director group and 20 participants were in the specialist commentator group. This latter group had general director selection responsibilities or general governance experience, often in both public and private companies. The Crown director group represented 19 of the 35 Crown Companies then in existence and included the chairs of 16 Crown Companies. (A full list of Crown Companies that existed at the time of the study has been presented in Chapter 1). The director group also provided a comprehensive level of experience in governance as some served on more than one company or had held directorships on both private and public boards. Those in the specialist commentator group who were directors also tended to have had experience on more than one board.

In reporting the results, this chapter is presented in sections that follow the interview schedule outlined in Chapter 3 and provided in detail in Appendices 1 and 2. The schedule was designed to reflect key themes in the literature. In each section results from the Crown director group are presented first, followed by relevant findings from the interviews with specialist commentators. As it was important to preserve the anonymity of specialist commentators, but to indicate their broad areas of expertise, this group has been divided into four categories described in Section 4.2.7. The results begin with a demographic description of the participants, concentrating on the director group. The chapter then moves on to examine why directors (Crown and private) became involved in governance; qualities and skills needed by directors; the role of CEOs, the impact of legislation; selection issues; New Zealand selection processes and politics, training and board composition in terms of diversity.

Although the interview process and the collection of data has been described in Chapter 3 (Research Design) as essentially a qualitative research approach, where possible responses have been grouped and tallied in order to provide useful comparative statistics for highlighting the findings in a concise way.
4.2 Description and Demographics of Interviewees

The demographic details provided by Crown Company directors are presented in detail, as much of the information uncovered in the interview process has not been collated in other research on Crown Company governance. This is followed by a brief summary of the demographic information supplied by the specialist commentators in order to provide a picture of this group. While the specialist commentators are not the subject of the study, some demographic information about the group – particularly of the private directors – allows us to place both their responses and the responses of the Crown Company directors into a richer context.

4.2.1 Gender, Age and Ethnicity of Crown Directors Interviewed

Of the twenty three Crown Company directors and chairs interviewed, 16 were men and 7 were women. When filling out their demographic questionnaires, participants were not given categories for ethnicity but were asked to self-identify. The clear majority of the group identified themselves as ‘European’, ‘European New Zealanders’, ‘Pākehā’¹ or ‘Kiwi’. Only three of the 23 in the director group indicated they were of other ethnicities. One of the men described himself as a Lebanese/New Zealander, two of the women indicated they were of Māori descent.

Participants indicated their age in five year age range options from 36 to over 60 years. Responses in the Crown director group are in Table 1.

Table 1: Ages and Gender of Participants in the Crown Director Group

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Female Directors</th>
<th>Male Directors</th>
<th>Total Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>41-45</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>46-50</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>51-55</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>56-60</td>
<td>1</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Over 60</td>
<td>1</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>16</td>
<td>23</td>
</tr>
</tbody>
</table>

As Table 1 shows the Crown Company directors and chairs interviewed tend to be older than the general population, with nearly a third of the sample over 60 years of age and none

¹ This is a commonly used term of Māori origin to describe New Zealanders of European decent.
under 40. The table also shows that the women directors are younger, with more than half of the women being under 50, compared to one fifth of the male directors interviewed.

4.2.2 Family Status of Crown Director Participants
Participants were asked key questions about their family status: whether they were partnered or not; whether they had responsibility for dependents and, if so, how many in total. All of the 16 males in the director group indicated they had a partner, whereas five of the seven female participants indicated they were partnered and two indicated they were ‘non-partnered’. More than half (14) of the participants had dependents. This group was made of up 10 of the 16 men (some of whom were responsible for parents as well as children) and just a slightly smaller proportion of the group of female Crown directors (four of the seven interviewees). The age of participants did not appear to be a major factor with regard to having dependents.

4.2.3 Educational Qualifications of Crown Director Participants
While three of the directors did not choose to answer the question on educational qualifications, the directors as a whole were highly educated. Just over sixty percent of the Crown director group had postgraduate degrees and there was little difference between the genders: nine of the 16 men and four of the seven women in the sample had post graduate qualifications. In addition, a third of those with tertiary qualifications also indicated that they had professional qualifications. All the women directors had a tertiary degree and three also had professional qualifications – including those women who were over 60 years of age. Of the males, nine had degrees, and five also had professional qualifications. Of the six male directors over 60, only two indicated that they had any formal educational qualifications.

4.2.4 Work in Addition to Crown Director Role
Nine of the Crown Company directors worked full time in addition to their director role. This proportion was far higher among the women of whom five of the seven worked full time, while just a quarter of the men directors interviewed also worked full time. This may be related to the higher percentage of male interviewees who were over 60 years of age. One of the women and two of the men owned their own businesses, one of the women and three of the men described themselves as consultants and outside
contractors, while four of the men indicated they had commitments to positions on other boards.

4.2.5 Previous Experience as a Director
All of the participants had previous experience as directors, or were in their second term as directors.

4.2.6 Perceived Influence of Qualifications and Experience on Appointment
In a related question, Crown directors were asked if they thought their qualifications, governance or management experience influenced their appointment to the board, and if so, in what way. All participants, men and women, indicated that their qualifications and experience influenced their appointment to the Board. While the majority of the participants did not answer the ‘in what way’ segment of the question, a number outlined their past working, board and leadership experience.

4.2.7 Description and Demographics of the Specialist Commentators
The demographic information about specialist commentators is less critical to the research question than that of the Crown Company directors, but information about the people involved in recommending director appointments and contributing to the directorship process in New Zealand is pertinent to the director selection issue. Furthermore, a number of the specialist commentators have a level of influence in Crown and Ministerial governance processes.

The specialist commentator group consisted of 20 interviewees. For this discussion they have been divided into four groups. Eight of the 20 worked for Government ministries (the ‘Ministry group’) and were involved in board and other appointments; between them they represented six government ministries. Four were office holders in organisations representing directors and involved in their training or recruitment (the ‘office holder group’). Three specialist commentators were selected for their special knowledge and experience in the oversight of boards in the public and private sector (the ‘knowledge and oversight’ group). Five – all of whom were women – were serving as directors in a wide range of private companies, some of whom were also active in organisations representing directors. This female private director group has been included within the broader specialist commentator group to allow comparison with those on Crown Companies.
Of the eight specialist commentators in the ‘Ministry group’, over half (five) were female. This group was younger than the Crown director group. Most (six) were aged between 40 and 60 with one of the women in the 36-40 year-old bracket and another over 60. The ‘office holder group’ of four specialist commentators was all male, and all over 50 with two of the four being over 60 years old. The three ‘knowledge and oversight group’ participants, who were approached for the study because of their experience in board oversight, were also all male. One of the oversight group was among the youngest interviewees (aged between 31 and 35), one was between 46 and 50 and the other was over 60 years old. All of these specialist commentators had a tertiary degree with the majority having completed a postgraduate qualification.

As mentioned above, the five private company directors interviewed for this study were all female (selected because of the project’s emphasis on gender). Of this private company director group two were over 60 years of age, two were 51-55 and another participant was aged between 46 and 50 years old. Three of the women indicated they were partnered and two not partnered. However, four of the five had responsibility for children. All of the women had tertiary education qualifications; three of the five had a postgraduate degree, one an undergraduate degree and one a tertiary diploma. Two of the women were in full-time work in addition to their board duties, two were consultants and one worked part-time on contracts and also as a consultant.

4.2.8 Summary and Comparison of Demographics

Crown Directors

The Crown directors were, in the main, European (or a related description of that ethnicity). They were older than the general population but, from that group, women directors tended to be younger than men. Of the Crown directors, it was more common for men to be both partnered and responsible for dependents than for female Crown directors. High levels of education and qualifications were common across all Crown directors but the four who did not report any qualifications were all male and over 60. Participants generally believed their qualifications and experiences influenced their appointment to boards. Active involvement in work other than directorships varied although it was more common for females than males. All Crown directors had previous experience in directorships and were, by inference, familiar with the requirements of governance.
Specialist Commentators

There was a rich and diverse pool of specialist commentators who contributed to this research. Four groups were identified from within this pool including: those with ministerial influence/expertise, those undertaking governance oversight roles, office holders relating to training and recruitment, and female private company directors. In Table 2, demographics of the private company directors are summarised in relation to the Crown directors.

As with the Crown directors, the specialist commentators in the Ministry Group, office holders, and knowledge and oversight groups were, in the main, ‘European’. Of the five females (all from the Ministry Group) three were under 50 and two over 50. For the ten males across the three groups five were under 50 and five over 50. The specialist commentators were highly educated with only one, a female from the Ministry group, with no educational qualifications.

Crown and Private Directors

Demographics for the female private directors were similar to those of the female Crown directors in relation to education levels, whether they were partnered or had dependents. The female private directors tended not to work full time.

Table 2: Ages and Gender of all Directors

<table>
<thead>
<tr>
<th></th>
<th>Female Crown Directors</th>
<th>Female Private Directors</th>
<th>Total Female Directors</th>
<th>Male Crown Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>41-45</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>46-50</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>51-55</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>56-60</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Over 60</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Total (n)</td>
<td>7</td>
<td>5</td>
<td>12</td>
<td>16</td>
</tr>
</tbody>
</table>

From the total pool of female directors (seven Crown directors and five private company directors) over four fifths (83%) were aged 55 or below. By comparison, of the sixteen male directors, only one third (31%) were aged 55 or below.

In relation to females only, five (70%) of the Crown directors were partnered and four (60%) were responsible for dependents. Three (60%) women private directors were
partnered and four (80%) were responsible for dependents. In both groups, all women had tertiary qualifications. Two (30%) of the Crown directors worked full time and two (40%) of the private female directors worked full time. It is of note that two of the private director women were over 60 (40%) compared to one (14%) of the Crown directors.

4.3 Why Directors became Involved in Governance

Questions about oneself can be answered without recourse to theory or specific expertise and responses are generally able to be more automatic, instinctive and comfortable. Thus, the initial questions were designed to explore interviewees’ perceptions of their major motivations for pursuing governance roles, they also contributed to a relaxed interview process (Bogdan & Bilken, 1992, p. 96). The opening two questions of the interview were: “What made you want to be a director or involved in governance?” and “Is it as you had imagined? Please elaborate.”

Participants identified three main drivers for their involvement in governance. These were: having been approached; their own personal interest in governance; and the director role being a career extension from the work they had done previously. Three of the participants also mentioned that directorships offered the chance to contribute their knowledge, or operational experience, to boards. Table 3 summarises responses for both Crown directors and women private directors in the sample. Crown director responses are discussed first and compared with the private directors in section 4.3.1.

Table 3: Why Crown Directors and Private Company Directors became Involved in Governance (Number and percentage of comments in each category)

<table>
<thead>
<tr>
<th>Reason given</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>All Crown Directors (23)</th>
<th>Female Private Directors (5)*</th>
<th>Total Directors (n) (28)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Career Extension</td>
<td>2 (29%)</td>
<td>7 (44%)</td>
<td>9 (39%)</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Interest</td>
<td>4 (57%)</td>
<td>5 (31%)</td>
<td>9 (39%)*</td>
<td>1 (25%)</td>
<td>10</td>
</tr>
<tr>
<td>Approached</td>
<td>1 (14%)</td>
<td>4 (25%)</td>
<td>5 (22%)*</td>
<td>3 (75%)</td>
<td>8</td>
</tr>
</tbody>
</table>

* Four of the five in the private director group responded to this question and percentages are calculated from those who responded.
It was clear that most of the Crown Company directors had not consciously planned to become directors and they described their involvement as either an extension of what they had already done or as a result of having been approached. The two responses were closely related and several respondents explained that, after a long career and relevant experience, they were approached.

In the most common response, nine of the 23 interviewees indicated that the move into governance had come about as part of the unfolding of their career paths. Seven of the men (just under half) spoke about directorships or involvement in governance being a career extension. Of these seven, five referred to the process as a “natural” one: “a natural progression” for instance from CEO, or a “natural extension” of management and public life experience, or a “natural evolution”. Mentioning this extension from CEO or management roles was the case for just two of the women directors, neither of whom used the word “natural” in relation to the transition.

Nine of the Crown directors said they became involved in the role because they had an interest in governance. In terms of gender, over half of the women in the sample and a third of the men, gave this response. One of the men said simply, “I retired at the age of 50 and I was too young to go out to play golf and I felt I could contribute my skills and being a director was something that had attracted me for a number of years”. Another said he had a “strong interest in strategy development”. Participants’ interests had been roused while they were in business – perhaps because of problems when the board intervened in a business decision – or as one of the women put it, “I really never knew what went on in the boardroom, and neither did any of the other general managers”. Two respondents, both of whom had served in high profile public capacities elsewhere, spoke in terms of enjoyment, with the male respondent saying, “I enjoy decision-making. I enjoy distilling a variety of issues” and the female respondent commenting, “I love making policy”.

Nearly a quarter of the Crown directors (four of the men and one woman) said they became involved in governance after being approached. One participant said: “you don’t apply; you get asked”. As one director, outlining his career through to retirement put it, “I don’t think I consciously set out to be a director … I had quite a long experience of governance issues … A number of people asked me if I was available for
such appointments, including the Ministry of State Owned Enterprises”. Similarly one of the female participants said: “I was invited...it was a matter of just picking up opportunities as they presented themselves, not a career decision in any way”.

In a slightly different vein, one woman said she was interested in governance because of her legal and financial training and was invited to join a board: “I suppose I filled the need for a female gender balance and the need to have people with financial skills”.

The follow-up question asked directors whether their experience had been as they imagined. Four of the Crown directors (two men and two women) said they had not known what to expect of the role. However, for the majority of Crown directors, ten of the men and four of the women, their governance involvement had clearly met their expectations. Most did not elaborate much, often implying that they already knew about the nature of the role. For instance, six of the male Crown directors made comments like: “I’m under no illusions” or “I’d had previous experience”, “It’s fundamentally a leadership role”. One of the women described her experience as “intellectually stimulating” and “collegial”.

Interestingly, three Crown directors responded to the question of whether the role had been as they had imagined by referring to tensions between the governance and management roles. Two men said that the experience was not as they had expected because the role had changed, with one of these adding:

I think directors were originally appointed because they were names or had connections or what have you, but the responsibilities today are quite different…there is a very clear distinction, or there is supposed to be, between governance and management.

Another male interviewee described himself as a “hands-on” person and said, “there’s that continual battle between trying to understand the difference between governance and management”. Similarly, a female Crown director, who herself had a clear sense of the distinction, said “one of the difficulties, I think, in the New Zealand environment around being a board member is that there are a significant number of people who don’t understand the difference between governance and management”.

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Another male Crown director, however, said the role was “90 percent common sense and the other 10 percent, I believe, is trust and confidence in your CEO and your colleague directors”. One female director, who had experience in a range of Crown Companies, commented that “it’s much more interesting being the Chair and being able to drive things. Being a director is a little frustrating … it doesn’t have the same excitement as running your own ship”.

For the majority of Crown directors (three female and ten male) their governance involvement has clearly met their expectations. Of the female private directors the majority responded in the same way (three of the five).

4.3.1 Why Private Directors became Involved in Governance

The majority of specialist commentators were not asked about why they became involved in governance. However, four of the five female private directors explained why they had become involved in governance. As shown in Table 3, two female private directors said they were invited, another said someone suggested the idea to her, and her involvement as a committee person was part of a transition in the late 1980s “from committees to boards”. For the fourth interviewee, involvement came from an “overwhelming interest” particularly in risk management and the financial aspects of business.

In essence, for the female private directors, three quarters reported that being approached was the main driver for their involvement in governance. This was in contrast to the Crown director group where only a quarter of the females reported being approached.

Involvement in governance as a career extension was also a point of contrast between the two types of directors (private and Crown). None of the female private directors identified this route whereas two female Crown directors did and seven males.

The director experience had met the expectations of three of the four women who answered this question. Of these, one mentioned the role was “interesting” and another was enthusiastic: “It’s probably the first time in my life that the culmination of everything I’ve
ever done has been needed”. The other private company director said it was too long ago for her to remember her expectations.

4.3.2 Summary: Why Directors became Involved in Governance
Crown directors reported that three main factors influenced participation of directors in governance roles: an extension of a career path, interest, and being approached. In general, Crown directors saw career extension or interest as the key drivers, although females identified interest more strongly than career extension, which was more common for males, who frequently used the term “natural” progression or extension. For female private directors, however, being approached was the main influence that prompted their involvement.

4.4 Qualities and Skills Needed by Directors

Five questions were designed to explore interviewees’ perceptions of the various qualities needed to make a good director. The issues were canvassed from slightly different angles and in two different places in the interview schedule. Both Crown directors and specialist commentators were asked these questions, which are listed below (along with their place in the interview schedule).

Questions related to qualities and skills needed by directors are:
Q3 What qualities do you think make a good director?
Q4 What do you see as the special qualities you bring to your role in governance?
Q9 In terms of board composition, what attributes, qualities or skills have you observed are common in directors?
Q10 In your view, what are the key criteria for director selection? Please elaborate.
Q11 What sort of specialist knowledge, if any, do you think directors should have? Why? Please elaborate.

This section will summarise the analysis of responses for each question, then these will be drawn together to provide an overall comment of the participants’ perceptions about the attributes, qualities and skills needed by directors. All subsequent sections in this Research Findings chapter will follow the same format – analysis of responses for each
question followed by brief summation pertaining to the theme of the section. A general summary of results will be provided in the conclusion section (Section 4.11).

4.4.1 Analysis of Responses

Q3 What qualities do you think make a good director?

Respondents identified a range of qualities that make a good director and these were analysed into 15 different categories, identified across both groups – the 23 directors and 20 specialist commentators – summarised below.

**Range of key skills** This quality incorporated competences such as the need for understanding finance and accounting, legal expertise, other relevant skills, having a “skills mix”, “aptitude for the industry”, and possessing “expertise of value”.

**Honesty** This quality included what interviewees identified as “integrity”, “ethics” and “moral fibre”.

**Commonsense** This quality included “wisdom”, balance and a “sense of proportion”.

**Possession of people skills** Incorporated in this quality was being a team player with an “acceptance of the team process”, having “a feeling for people” and an “understanding of what makes people work”, as well as “operating in a collegial way”.

**Intellect** This quality incorporated the need for an enquiring mind, an “ability to distill what is important”, “independence of thought”, and “objectivity”.

**Understanding of governance** This quality encompassed the need to “understand the difference between governance and management”, “understanding governance principles” and “experience in corporate governance”.

**Strategic thinking** Within this quality were comments about seeing the big picture, having a “bit of a helicopter view of things and not get bogged down in the detail”, and/or having “a high level view”.

**Business acumen** This quality included reference to the need for commercial experience and business knowledge.

**Strength** This quality incorporated being “courageous”, having the “confidence of your own convictions”, being prepared to “front hard decisions”, and “willingness to speak out”.

**Preparation** “Doing one’s homework” was also part of this quality.

**Analysis** This quality incorporated comments like being able to “cut to the chase”, not being afraid of the “rigour of debate”, and “challenging ideas”.
Leadership. Associated with this quality were references to the “ability to be good leaders” and the need for “senior management experience”.

Passion. Within this quality was having a wide interest, “a willingness to serve”, and being prepared to “make a commitment to the boards that they serve on”.

Track Record. As a quality this encompassed having “professional competence”, and having one’s own expertise for credibility “life experience to understand an issue”.

Self Awareness. was also identified as a quality.

Table 4 shows the number of responses in each category. Note that participants commonly identified more than one quality.

### Table 4: Qualities that Make a Good Director

<table>
<thead>
<tr>
<th>Qualities</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Female Specialist Commentators (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Total Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range of key skills</td>
<td>5</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>Honesty</td>
<td>4</td>
<td>7</td>
<td>3</td>
<td>0</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>Intellect</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Commonsense</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>People skills</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Governance</td>
<td>2</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Strategic thinking</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Analysis</td>
<td>0</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Business acumen</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Strength</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Passion</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Preparation</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Leadership</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Track record</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Self Awareness</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: the female Private Directors have been separated from the group of Female Specialist Commentators to ensure comments from directors per se are identified.

Range of key skills. The largest group of responses was in this category. Key skills were mentioned 23 times across all groups of participants.

Honesty. was the second ranked category, being mentioned 19 times across every group except the female specialist commentators. The need for a range of key skills and honesty were mentioned seven times across both groups of female directors (Crown and private, 12 females in total), equating to 58% of these participants. Eight male Crown directors (half of this participant group) referred to the need for a range of key skills and seven (just under half) of the male Crown directors mentioned honesty. From the
specialist commentators, responses for range of key skills and honesty were as follows: The category range of key skills attracted comments from four of the five female, and four of the ten male, specialist commentators. Honesty was not mentioned by female specialist commentators but was a theme mentioned by almost half (four) of the males. The 23 comments across all respondents about the need for a range of key skills indicates over half of the 43 participants believe these are necessary qualities for an effective director. Honesty attracted 19 comments in total, being mentioned by just under half of the participants.

There was less emphasis on the other identified qualities as shown in the ensuing list of all themes extracted from the interviews.

Intellect  There were 14 comments, four from females (across all three respondent groups, totaling 17 females) and ten from males (across the two respondent groups, totaling 26 males). These translate into 24% and 38%, respectively. However, as a total, 14 represents a third of the entire interview pool. This demonstrates a change in emphasis for qualities that make a good director from just under half of the interview pool for the previously mentioned range of key skills and honesty, to a third of the pool, as identified with intellect.

The next ranked two qualities to emerge were commonsense and the need for people skills, each attracting 13 comments (30% of the entire interview pool of 43 people). Notably, none of the female specialist commentators referred to the need for people skills.

Understanding the difference between governance and management attracted 11 comments, 10 of which came from directors and one from a female specialist commentator. One male Crown director summed it up by saying: “I think they’ve got to understand what the role is. They need to understand the difference between governance and management, many don’t”.

Strategic thinking was mentioned nine times, relatively evenly across the participant groups (as seen in Table 4). The total of nine equates to one fifth of the entire interview pool.

Analysis as a category drew eight comments, five of which came from male Crown directors and none from the female Crown directors. One female private director
highlighted this theme, with another two comments from specialist commentators. A third of the 16 male Crown directors highlighted this theme. **Business acumen** emerged as a quality through comments made mainly by directors (six in total – three females and three males, from a total of 28) and from one male specialist commentator. **Strength** was a theme emerging from seven comments, four of the references from the director pool (28 people) and three from the specialist commentators (15 people). **Passion** was mentioned by six respondents, but was not mentioned by any of the female directors. The need for passion was mentioned by the other three groups: male Crown directors, and both female and male specialist commentators. Qualities that emerged from interviewees, but which were less frequently referred to than other themes, were: preparation (five references), leadership (five references), and the need for a track record (four references). **Self awareness** was noted by one female private director.

**Q4 What do you see as the special qualities you bring to your role in governance?**

The question of special qualities was an extension of the previous one to gauge directors’ personal assessment of themselves. The question was asked of the five women private directors, but not the rest of the specialist commentator group.

The directors identified 12 qualities they themselves possessed, three fewer than the qualities they identified as important for directors in general. Those not referred to directly were business acumen, strength, preparation and awareness of limitations. An additional quality mentioned in relation to “self” was being intuitive.

As shown in Table 5, equal emphasis was given to the need for a range of key skills and track record, with 12 comments each. In addition to descriptions associated with track record for question 3, comments also included “operational record” and “long experience in management”. The female private directors did not identify these qualities in their responses (for either question, Q3 or Q4). The qualities required by directors were compared with those qualities participants said they themselves possessed. Range of key skills as a requirement had drawn 15 comments from the three director groups (Q3) compared with 12 directors identified key skills as a special quality.
they brought to their director role (Q4). Further, those comments were from Crown directors only.

**Table 5: Special Qualities Directors Believe they Bring to their Role**

<table>
<thead>
<tr>
<th>Qualities</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Total Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range of key skills</td>
<td>4</td>
<td>8</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Track record</td>
<td>4</td>
<td>7</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Intellect</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Strategic thinking</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Governance</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Analysis</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Passion</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Honesty</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Commonsense</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Intuitive</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Leadership</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>People skills</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Nine (out of 28) directors also noted that they possessed intellect as a key quality, the same number as for question 3 (when tallying directors’ responses only). Strategic thinking was the fourth ranked quality identified by directors in relation to themselves, the eight responses being higher than the five mentions by this group in response to Q3. Understanding of governance emerged as a quality respondents claimed they possessed. As with their responses to the previous question, participants emphasised the need to understand how to differentiate between governance and management. This category attracted five comments compared to 11 in the previous question. Notably, none of the female private directors identified this quality in relation to themselves, although they had observed its value as a quality for a good director (Q3).

The other qualities mentioned in response to question 3 attracted relatively few comments given the total pool of directors canvassed (ranging from four down to one comment) but showed the breadth of personal perception across the group. *Passion* was, however, identified as a personal quality by four (out of 28) directors as compared with the two mentions to it with regard to the previous question (Q3). In question 3, it was the specialist commentators who noted passion as a necessity, with four comments in total from that group. Reference to *leadership* was made by one male director (in...
relation to himself) but in the previous question four males and one female identified it as a quality for good directors.

A new category relating to the quality of being *intuitive*, was mentioned by two women (one Crown director and one private director).

These results show that possessing a *range of key skills* remains the highest rated quality that directors believe they bring to their role. *Intellect*, with nine comments for both questions 3 and 4, shows consistent emphasis. Response rates for *track record* were quite different across the questions with it being mentioned 12 times by directors in relation to their own qualities but only four times in response to question 3, where they responded in relation to qualities that make a good director.

Question 9 was also part of the exploration of director qualities and was presented later in the interview, after questions about the New Zealand governance environment and the role of CEOs in governance. This meant participants had an opportunity to explore other issues which may also have helped them re-visit the theme of qualities and skills with different and fresher ideas.

**Q9 In terms of board composition, what attributes, qualities or skills have you observed are common in directors?**

Seventeen different attributes, qualities or skills were identified as being common among directors. Of these, the need for a *range of key skills* was mentioned most across all groups (directors and specialist commentators) with 25 comments in total (representing over half of the entire interview pool of 43 people). Table 6 provides a breakdown of responses to this question.

The other four most frequently mentioned attributes, qualities or skills were *passion* (nine comments from the 43 interviewed), understanding the difference between *governance* and management (seven), having *people skills* (five), and *intellect* (five). *Passion* as a quality common in directors, was mentioned by six directors whereas when directors spoke of their own qualities (Q4) it attracted only four comments. *Governance* knowledge, however, was mentioned as common by four directors yet five had identified it as a quality they possessed. Similarly, *intellect* was observed as common
by five directors whereas nine had regarded themselves as possessing this quality. *People skills* as a common quality, with three comments from the Crown director group of 23 people (two from females and one from males), was only mentioned by one director (a female) as a personal quality.

**Table 6: Attributes, Qualities or Skills Common in Directors**

<table>
<thead>
<tr>
<th>Qualities</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Female Specialist Commentators (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range of key skills</td>
<td>3</td>
<td>11</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>25</td>
</tr>
<tr>
<td>Passion</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Governance</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>People skills</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Intellect</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Honesty</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Strategic thinking</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Commonsense</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Business acumen</td>
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<td>1</td>
<td>0</td>
<td>2</td>
<td>3</td>
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<td>Preparation</td>
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<td>0</td>
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<td>3</td>
</tr>
<tr>
<td>Strength</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Analysis</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Obsession with administrative processes</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>Sense of humour</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Some comments that were made less frequently were still important for the insight they gave to individual perceptions of the director role. For example, one female private director mentioned that *self interest* was common but followed that up by saying:

Sometimes it’s a form of defence because they haven’t jolly well done their homework so the self interest is in protecting their respect and they don’t want to be shown up.

Categories that attracted single responses included *obsession with administrative processes, sense of humour, and middle aged males*. The reference to having an obsession with administrative processes came from a male specialist commentator in the ‘knowledge and oversight’ group. Perhaps surprisingly, the comment about “middle aged males” was made by a male who had experience as a director over many years so
was reporting his observations in relation to the common make up of boards reinforced by the extent of his experience.

Three participants (from the pool of 43) mentioned strategic thinking in describing the common qualities of directors while five mentioned this attribute in answer to Q3 and yet eight referred to it in Q4 in relation to their own repertoire of skills. Honesty was mentioned only three times as being a common attribute, quality or skill held by directors yet was noted 17 times by directors and five times by specialist commentators as a quality that would make a good director. However, directors identifying their own qualities also only mentioned honesty three times.

To further explore the theme of director attributes, qualities and skills, the next question (Q10) took another approach by asking about key criteria for director selection.

**Q10 In your view, what are the key criteria for director selection? Please elaborate.**

Following the trend set in answers to all previous questions on this theme, the most common response was the requirement for a range of key skills. Of the 17 comments, directors gave greater emphasis to the need to select for a range of key skills (11 Crown directors and two female private directors, from the total pool of 28 directors). Two female and two male specialist commentators (from the total 15 specialist commentators) also identified range of skills as vital components of director selection.

Other key areas highlighted in response to this question were passion, intellect, honesty, and business acumen. Of these, passion was relatively highly rated with eight of the 23 Crown directors referring to it. It was not mentioned by the female private directors or any of the specialist commentators. Honesty was mentioned nine times overall, and intellect eight times.

Other categories attracted one or two responses and it was common for criteria to 'tumble out' in a series as was found with those mentioned below. Strategic thinking did not feature as highly as a key selection factor (two directors and three specialist commentators, from the pool of 43 participants) and business acumen attracted six comments (from two male Crown directors, three female private directors and one male specialist commentator). These categories had been identified in response to previous
questions within this theme, thus a measure of consistency was evident across questions relating to important characteristics likely to be associated with ‘good’ directors.

A requirement for director selection not referred to in response to earlier questions was the ability to identify gaps in board composition and filling them to get the best mix of people. The female private director explained:

I think that each organisation needs to say, “We have an opportunity now. … Before we go to the marketplace, what are we short of on our board now? What are we replacing? If its finance we’re replacing, we probably need to be looking at finance again. Or is there somebody on the board who could finance…are we lacking marketing? … What do we need of today moving forward, rather than today moving backwards?

From responses to question 10 and previous questions, participants indicated that they believe it is necessary that there be a *range of key skills* on the board. However, question 11 gave an opportunity for participants to identify specific skills relevant to governance to determine, out of that range, what specific qualities, skills or attributes were of significance to the governance role.

**Q11 What sort of specialist knowledge, if any, do you think directors should have? Why? Please elaborate.**

This question presented an opportunity for participants to expand on responses to the previous questions. There were, however, ten instances (involving 12 people) when the question about specialist knowledge was not asked in the interviews. This came about for a number of reasons, including: in response to non-verbal cues from participants, the interviewer’s sense that respondents had commented sufficiently and comprehensively on this theme, or sensing that the particular interview environment was not conducive to further probing.

Despite the smaller pool of responses available for analysis, the need for a *range of key skills* was again a leading category with 15 comments (from the smaller pool of 31 respondents). This question also saw the introduction of a new category, not previously mentioned; *industry specific knowledge*. This category, which drew the highest number of comments (see Table 7), was related particularly to the business activities of
companies with phrases such as: “knowledge of the industry”, “thorough knowledge of the business”, and “what makes the business tick”.

Table 7: Essential Specialist Knowledge for Directors

<table>
<thead>
<tr>
<th>Qualities</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (12)</th>
<th>Female Private Directors (4)</th>
<th>Female Specialist Commentators (2)</th>
<th>Male Specialist Commentators (6)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range of key skills</td>
<td>2</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Industry specific knowledge</td>
<td>6</td>
<td>8</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>Governance</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Not a fan of a specialist board</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>People skills</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Strategic thinking</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Analysis</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Intellect</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Passion</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

In terms of industry specific knowledge, it was also noted by one director, who had limited educational qualifications and limited governance experience, that his career in the industry to which he was appointed director, made him well qualified to contribute. Another participant commented that boards need people who understand business in general but also the specific industry:

If it’s a manufacturing company you’d want to know…somebody who understood manufacturing processes and production and that sort of thing. If the company was strong in exporting, you’d typically have someone there who understands exporting… It’s very hard to give a typical mix because it’s a big mix.

These, and similar comments, indicated that the need for a range of key skills and the need for industry specific knowledge are regarded as complementary.

Eight responses also indicated that across the board there should be some specialist knowledge but that this was not entirely useful in isolation from a range of other qualities. For example, one female Crown director said:

I do think governance has a lot of generic qualities about it …A board can operate successfully without specialist knowledge in that particular field, but I do
think it’s really useful to have at least one person who does have a thorough knowledge of the business, but at times, that can be very difficult to find - someone who has no conflict or agenda.

On the same matter, a male director stated:

I think that there are circumstances where a general experience is actually, rather than a specialist experience, is both appropriate and helpful. But, depending on the field that you’re in and the composition of the rest of the board, the requirement might be quite the opposite. You might say, “Well, what we’re really needing here is a specialist. Somebody who’s a director of definite experience.”

For both categories – range of key skills and industry specific knowledge – response tallies were higher from Crown directors than from individuals in other respondent groups. Fifteen responses (10 from Crown directors and one from a female private director) identified the need for a range of key skills and all 16 responses for industry specific knowledge came from directors.

Mention of the need for knowledge about governance, although relatively small (6 of the total 31 participants who were asked the question) follows the trend of responses to other questions in this overall theme of attributes, qualities and skills, and indicates a general and consistent awareness of governance issues.

Although question 11 concentrated on specific knowledge there were seven categories that overlapped with categories identified in previous questions within this theme. The ones that did were: range of key skills, governance, people skills, strategic thinking, ability to ask key questions, intellect and passion.

A small group responded to the question of what specialist knowledge board members should have by saying that specialist knowledge was not in itself desirable. Comments included: “not a fan of a specialist board”, “not sure it’s particularly important”, and “necessary in some industries but not all board members need it”. There were five responses in this vein; three from female directors (Crown and private), and two from specialist commentators.
4.4.2 Summary: Attributes, Qualities and Skills

Across all five questions relating to the theme of attributes, qualities and skills needed by directors, the most frequent response was that a range of key skills is required. It was mentioned in answers to each question and attracted a total of 91 comments. Table 8 shows the ranking of attributes, qualities or skills pertaining to directors for each of the five questions within this theme.

Table 8: Top Ranked Attributes, Qualities or Skills

<table>
<thead>
<tr>
<th>Attributes, Qualities or Skills</th>
<th>Q3</th>
<th>Q4</th>
<th>Q9</th>
<th>Q10</th>
<th>Q11</th>
<th>Total Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range of key skills</td>
<td>23</td>
<td>12</td>
<td>25</td>
<td>17</td>
<td>14</td>
<td>91</td>
</tr>
<tr>
<td>Intellect</td>
<td>14</td>
<td>9</td>
<td>5</td>
<td>8</td>
<td>1</td>
<td>37</td>
</tr>
<tr>
<td>Honesty</td>
<td>19</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>Governance</td>
<td>12</td>
<td>5</td>
<td>7</td>
<td></td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Strategic thinking</td>
<td>9</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>Passion</td>
<td>6</td>
<td>4</td>
<td>9</td>
<td>8</td>
<td>1</td>
<td>28</td>
</tr>
<tr>
<td>People skills</td>
<td>13</td>
<td>1</td>
<td>5</td>
<td></td>
<td>3</td>
<td>22</td>
</tr>
<tr>
<td>Track record</td>
<td>4</td>
<td>12</td>
<td>3</td>
<td></td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>Common sense</td>
<td>13</td>
<td>2</td>
<td>3</td>
<td></td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>Analysis</td>
<td>8</td>
<td>4</td>
<td>2</td>
<td></td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Business acumen</td>
<td>7</td>
<td>3</td>
<td>6</td>
<td></td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Industry specific knowledge</td>
<td></td>
<td></td>
<td></td>
<td>12</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Strength</td>
<td>7</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Not a fan of a specialist board</td>
<td></td>
<td></td>
<td></td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

Three other attributes, qualities or skills (hereafter ‘quality’) mentioned across all questions were intellect, strategic thinking and passion. These categories together emphasise the need for directors to have significant intellectual capacity, to really know how to undertake the assigned governance role as well as understanding the difference between governance and management (particularly as management roles are often a precursor to directorships), to be able to think broadly for the industry (knowing that management’s role is to implement the strategy the board determines) and to have unwavering commitment to ensure these goals are met.

Honesty was the third ranked quality with 34 references made to it in response to four questions. Governance was the fourth ranked quality with 30 references across four questions.
Thus, it appears that a judicious mix of a range of key skills, a good understanding of all aspects of governance, intellect (or intellectual capacity), possession of people skills and honesty are regarded as prime qualities for board members. Participants thought directors need to possess some of these but not necessarily all. Further, where they have gaps, they need to be able to defer to the expertise within the group.

The greatest differences between responses to each of the questions highlighted, came in the weighting each of these categories had for the specific question asked. For example, what people identified as being attributes, qualities or skills for directors generally, were not given the same importance when describing themselves or those that are common in directors. Honesty, intellect, common sense, people skills, governance and strategic thinking were the top ranked qualities that make a good director in general terms (Q3) – aside from the need for a range of key skills. However, apart from the consistent acknowledgement of the need for a range of key skills, having a track record was ranked second by directors as one of their own qualities (Q4) with honesty, commonsense and people skills hardly featuring, all of which had been identified as qualities that make a good director and those which are common in directors.

In the overall mix, which was explored in question 9 about qualities common in directors, qualities identified as important included passion, governance, people skills and intellect.

Question 10, which explored key criteria for director selection and question 11, which explored specialist knowledge required by directors, again drew comments focussing on the need for a range of key skills. There was also an indication that participants believed the overall composition of the board should reflect a mix of broad and specialist knowledge, evidenced by the comment:

I think that there are circumstances where a general experience – rather than a specialist experience – is both appropriate and helpful. But depending on the field that you’re in and the composition of the rest of the board, I think if you want to get the optimum solution, you have to tailor the board accordingly.
Clearly there may be other classifications that are useful for augmenting our understanding of responses. Therefore the attributes, qualities and skills mentioned in Table 8 were grouped under three broad categories shown in Table 9. These are:

- **Business expertise** made up of the range of key skills, governance, strategic thinking, track record, analysis, business acumen and industry-specific knowledge
- **Personal characteristics** made up of intellect, passion, people skills, commonsense and strength.
- **Honesty** comments on ethical values restricted almost entirely to honesty and integrity.

### Table 9: Combined Attributes, Qualities and Skills

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Number of comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business expertise</td>
<td>212</td>
</tr>
<tr>
<td>Personal characteristics</td>
<td>114</td>
</tr>
<tr>
<td>Honesty</td>
<td>34</td>
</tr>
</tbody>
</table>

The table reveals a stark contrast between the number of references to business-specific experience and references to other categories. The greatest differential is between the focus on business expertise and on values or ethics. The broad value/ethics category has been termed ‘honesty’ reflecting participants’ responses. All but four of the 34 comments were restricted to the terms honesty or integrity (with three comments referring to ethics and one to ‘moral fibre’). While honesty received a high number of mentions in the first answer, this did not continue across the series of questions exploring desirable attributes, qualities and skills. The dominant orient towards business expertise occurred in response to all relevant questions, despite the wording of several questions which encouraged participants to identify ‘qualities’ as well as ‘attributes’ and ‘skills’.

As a final observation, the group of questions here permitted exploration of qualities in the general and specialist contexts and there was always support for the two existing simultaneously within a board to ensure the board had an appropriate mix of skills for the industry it was serving.
4.5 The Role of Chief Executive Officers (CEOs)

Two questions were asked to explore interviewees’ perceptions of the influence CEOs have on director selection. While Crown Companies do not have CEOs on their boards, these questions were included because of CEOs’ influence in relation to private and public companies. Internationally, CEOs have acknowledged influence on boards (Fich, 2005; Gerety, Hoi & Robin, 2001). Within New Zealand, I was interested in exploring whether the CEOs may still have some influence on board decision making in Crown Companies.

Questions related to this theme were:

Q7 How are CEOs involved in director selection?

Q8 What, if anything, have you noticed about people CEOs recommend for board positions? Why do you think CEOs choose these people?

As noted in Section 4.4, the format for the section will be an analysis of responses for each question and then a summation of the role of Chief Executive Officers in the Crown Company board structure.

4.5.1 Analysis of Responses

Q7 How are CEOs involved in director selection?

Participants gave two main responses to question seven – either they stated that CEOs are not involved in director selection, or they described their observations of any informal involvement that can occur. Other comments around involvement were from single sources (as detailed below) but are identified because of the variety these perspectives introduced.

CEOs are not involved There were 21 responses (from the 43 participants) which pointed out that CEOs were not involved in board selection. Seventeen of these comments were from directors, an unsurprising result given the Crown Company structure. Typical comments included: “shouldn’t be”, “typically aren’t”, “technically it’s a role for the shareholder”.

Informal discussion Ten directors (from the entire director pool of 28 people) and six general specialist commentators indicated that there is sometimes an informal discussion between the CEO and Chair – despite this being the Crown Company environment.
Within this category representative comments were: “consult”, “CEO should have a voice”, “process largely driven by the Chair and CEO”, “CEO and Chair should have good rapport”, “assisting in specifications”, “overtly not involved – covertly often have, by invitation”.

Of the remaining responses, one male Crown director and one male specialist commentator referred to the continual point of contention between board and CEO (principal/agent) roles. The male director said:

It seems to me there are two models that operate...Quite often the traditional method as a CEO is a shop steward/management and, therefore, he’s sitting at the top of the pyramid in management dealing with the board. They’re the gatekeeper of all information... “I’m the shop steward. You don’t get past me.” As opposed to the other model, which is saying the CEO is the agent of the board and, therefore, as essentially part of the board, and when the board says “We would like to do things.” He goes and organises it and, therefore, delivers it. And, therefore, if there are problems, he can actually be detached.

Against the trend of responses, one female specialist commentator from the ‘Ministry group’ suggested CEOs were not involved enough, although she admitted her view was not generally held or favoured. Table 10 shows the pattern of responses across all categories.

Table 10: CEO Involvement in Director Selection

<table>
<thead>
<tr>
<th>CEO Involvement</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Female Specialist Commentators (5)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEOs are not involved</td>
<td>6</td>
<td>8</td>
<td>3</td>
<td>4</td>
<td>0</td>
<td>21</td>
</tr>
<tr>
<td>Informal discussion</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Continual contention</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Not involved enough</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Q8 What, if anything, have you noticed about people CEOs recommend for board positions? Why do you think CEOs choose these people?

The most frequent response to this question indicated that CEOs choose people like themselves, with 18 comments (from the entire participant group of 43), six from the 23 Crown directors, four from the five female private directors and eight from the 15 specialist commentators. Notably, of the Crown directors who commented, five were male – half of the responses – and this is mentioned in relation to anecdotal evidence often cited about board positions being related to the old boys’ network. Typical comments within this range included those from male directors who said “People they see in a like image to themselves”, and “It can vary… they push for people who they like, they know, who are sympathetic to them, that they know they can rely on their support, all of which are not necessarily good things in themselves”. Table 11 shows the full range of responses.

Table 11: CEOs’ Recommendations for Board Position

<table>
<thead>
<tr>
<th>CEO Involvement</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Female Specialist Commentators (5)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Like themselves</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>8</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>CEOs are not involved</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Bring value</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>Don’t know</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

CEOs are not involved The 13 responses recorded in the table (10 from the 23 Crown directors) were made up from direct references and those not asked because their response to question 7 said CEOs are not involved. Typical comments included: “We haven’t had CEOs recommend the directors. We talk to them as the second step” and “The CEOs never recommend people to us and that’s not what we go to them for. We go for more information”.

Bring value This category included references to CEOs recommending people with relevant skill sets and people “who do and can genuinely bring value to the board” or those with a specific “technical expertise”. This was mentioned by 13 of the total 43 participants – 11 directors and two male specialist commentators.

Don’t know Four participants, two of them male directors and two specialist commentators, commented that they did not know, or had not noticed anything
distinctive, about CEO influence. Representative comments within this category included: “Don’t think I’ve got enough experience to comment on that” and “couldn’t discern any specific pattern”.

4.5.2 Summary: The Role of Chief Executive Officers (CEOs)

The Crown Company boards do not have CEO representation on them but this did not rule out the possibility of CEO influence in the appointment process. Thirteen people refuted any CEO involvement which, technically, was an accurate response for the Crown Company environment. Despite this, comments were proffered that indicated on occasions the Chair and CEO do discuss director selection and appointments. There were 32 such comments (from across the interview pool of 43 people) with two perspectives. Those perspectives referred to CEOs choosing people like themselves (18 comments or 42% of the entire interview pool) and who may bring value (13 comments or 30% of the entire interview pool). Thirteen of the 18 comments that referred to CEOs preferring people like themselves came from males – 50% of all males interviewed, directors and specialist commentators. The gender split was closer in relation to people who bring value with six females (35% of all females interviewed) and seven males (27% of all males interviewed) making that observation.

4.6 The Impact of Legislation

There was one question covering the impact of legislation:

Q20 How does current legislation in New Zealand, particularly the Companies Act 1993, contribute to governance in New Zealand?

4.6.1 Analysis of Responses

Responses indicated that participants were aware of legislation guiding the operation and reporting procedures of companies in New Zealand, the consequent requirements for governance and the specific prescriptive clauses relating to directors undertaking the governance role. Hence, the majority of comments related to legislation making a contribution to clarifying governance roles, but associated references alluded to compliance in both positive and negative terms. Only nine of the total pool of 16 specialist commentators responded to this question because of time constraints around the interviews. Categories and comments were as follows.
Comments supporting the compliance aspect of legislation came from 16 of the 28 directors (four female and ten male Crown directors and two female private directors, 57% of the entire director pool) and three male specialist commentators (20% of the entire specialist commentator pool), giving a total of 19 participants. Typical comments were: “It’s clear to what the responsibilities are, what roles the board plays, and if you don’t comply with it, you’ll get your hand smacked”, “It’s quite permissive; it’s not a constraint”, “It’s what all corporate governance comes under and … every board is pretty wise to understand their obligations under the Companies Act”, and “provides a framework within which we have to operate”.

Responses suggesting that compliance issues associated with legislation had some negative impact on governance came from five of the 28 directors (two each from the female director groups and one male director) and two male specialist commentators. Representative comments were: “There’s high emphasis on having skills and on legislative compliance…In fact, we’re just about going overboard in terms standards for governance” and, “the legislation now is actually quite onerous really. The responsibility of directorship is quite high and there’s a reasonable body of case law that has, particularly in Australia, been quite tough on Directors”.

References to the influence of legislation other than the Companies Act came from one male Crown director and one male specialist commentator. It is noted that some Crown Companies also operate under specific legislation (such as the State-Owned Enterprises Act 1986, Crown Entities Act 2004 and Crown Research Institutes Act, 1992) and that such legislation takes precedence over the Companies Act (1993). These responses reflected that awareness and gave a broader focus to the responses. Another male Crown director made a more neutral comment, saying that the legislation concerning commercial law “doesn’t upset us or doesn’t do anything to frustrate us in any way”.

Three of the 43 respondents commented that they did not know what influence legislation had on NZ governance: one each from the male Crown directors, female private directors and female specialist commentator groups.
4.6.2 Summary: The Impact of Legislation

Responses indicated that there was general awareness of the Companies Act. Among the differing views about the legislation, impressions were more positive than negative – 19 (44%) to 7 (16%) – even though one specialist commentator commented across both categories, stating: “There are some elements of the Companies Act that are quite inadequate. There are some that provide some very useful benchmarks of influence”. The total positive comments also outweighed the combined other categories – 19 : 13 (44% : 30%).

Although positive comments included references to compliance and parameters within which governance is to be undertaken, the tenor of those comments indicated that these respondents considered compliance to be helpful to governance. Comments such as: “It’s quite permissive; it’s not a constraint” and “provides a framework within which we have to operate”, reveal that respondents believed that legislation encourages consistency in governance operations across all industry types.

4.7 Information and Support for Director Selection

Three questions were designed to explore interviewees’ perceptions of information and support for board selection processes. Questions related to these factors were:

Q21 How do you perceive the identification and screening criteria for potential directors used by CCMAU?

Q22 How did you find the publicly available material on directorships when you were seeking appointment to the board? Which specific material did you use?

Q26 What do you consider to be the use made of CCMAU’s database in the appointment process?

There were few comparable responses across this set of questions, largely because each question focused on a different aspect of information and support on selection.
4.7.1 Analysis of Responses

Q21 How do you perceive the identification and screening criteria for potential directors used by CCMAU?

There were seven categories of response to this question. Each of these categories, and the pattern of responses, are detailed below.

Support for CCMAU processes Sixteen comments (from the 43 participants) supported the CCMAU selection processes: four from female Crown directors, seven from male Crown directors, one from a female private director (12 of the total director pool or 43%) as well as two female and four male specialist commentators (a total of six or 40% of the specialist commentator group). The majority of comments reflected acceptance of the CCMAU entity with participants saying that CCMAU follows processes and that its intention is to ensure representation is fair by law and related compliance requirements. Typical comments were: “I think CCMAU do a pretty good job understanding what the boards want, what they need”.

Don’t know enough about it There were eight comments (from the 43 participants) referring to not knowing enough about CCMAU and these were made by six directors (three male Crown directors and two female private directors, 21% of the entire director pool) along with three specialist commentators (20% of the entire specialist commentator pool). Representative comments were: “hard to judge”, “not totally experienced in that”.

Not impressed with the evaluation process A quarter of directors (across the three groups, totaling 28 people) and one male specialist commentator, were either detached from, or critical of, CCMAU’s processes. Typical comments included: “formulaic”, “doesn’t have credibility”, “haven’t looked at it for a while”.

Influenced by political factors Six participants made reference to political influence in the processes (five Crown directors and one male specialist commentator). The tenor of comments was related to the previous category (not being impressed with the evaluation process) and included: “don’t know how many recommendations to Ministers are accepted and/or rejected”, “inevitably a political process takes over”, “it’s the political interference that occurs thereafter that creates the problem”.

It’s improving Three respondents (one a male Crown director and two specialist commentators) claimed that CCMAU criteria were improving
A number of other comments emerged from among the Crown directors. For example, one woman remarked about the need to prospect for potential directors: “People apply for directorships but I think CCMAU should look at talent”. A male Crown director referred to the CCMAU process as: “an approximation; it’s just one methodology of many”.

Q22 How did you find the publicly available material on directorships when you were seeking appointment to the board? Which specific material did you use?

This question was asked of the Crown directors and five female private directors only, a total of 28 respondents. The intended focus was to ascertain how directors found the quality of the material but responses were more in terms of the processes participants either did or did not undertake to find information about directorships. That said, responses underscored the high profile enjoyed by the New Zealand branch of Institute of Directors (IoD): ten, or just over a third of the total director group (four female and five male Crown directors and one female private director), said they knew about the IoD.

Overall, ten respondents (three female and four male Crown directors and three female private directors) indicated that had not sought a lot of information. Five of the respondents (three male Crown directors and two female private directors) said that finding material was difficult.

Q26 What do you consider to be the use made of CCMAU’s database in the appointment process?

This question regarding the use of CCMAU’s database was presented to both directors and specialist commentators.

Not used much The main group of responses (14 from the total 43 participants) reflected the belief that the CCMAU database was not used much. Responses came from four female and five male Crown directors plus two female private directors as well as two female specialist commentators. The comment “none of us knows how the appointment process works” seemed to sum up the nuances gleaned from associated responses.
**Probably the best available** and/or that **It was used extensively** Ten responses indicated participants perceived that CCMAU’s database was of some value or was well used in the appointment process. Three Crown directors and two specialist commentators referred to it as being the best available resource, and extensive use of the database was mentioned by two male Crown directors and three male specialist commentators (12% of the entire interview pool).

**Hope it’s used because they collect names** Three comments implied that the respondents saw the database as a way of signaling their availability for board membership (one female and two male Crown directors).

**Slightly negative observations** There were five comments that suggested possible shortcomings in the database: “it cuts out the advert”, “a database is only as good as its currency, and the weakness is that it doesn’t contain names of people who could or should be directors”, “other people have used my CV from it – I wasn’t sure that was appropriate”, “SOEs and Crown entities have to use CCMAU”, and “A database is only as good as its currency, and it’s probably only as good as the validation of the information in the database”.

4.7.2 **Summary: Information and Support for Director Selection**

Respondents were, in the main, aware of CCMAU’s processes and were positive or neutral about them, with 19 comments (44% of respondents) referring to support for the database and its improvement. Comments more negative in tone, about both processes and use of CCMAU’s database, came from 13 participants (30%) – just under a third of the total 43 participants. However, participants did not indicate great awareness of how CCMAU’s database influenced director appointments, and 14 participants, one third of the total, indicated they believed the database was not well used.

Six responses reflected slightly negatively on the political process involved and politics has featured in responses to questions within other themes. None of the comments in relation to this set of questions was particularly damning of the political aspects, hence my use of the qualifier ‘slightly’. Political factors mentioned referred to the Appointments and Honours Committee which has ultimate veto over Crown Company board appointments. Personal experience was evident here with one participant stating: “I went through it but still think appointments have to have some acceptability to shareholding Ministers”. Of the six comments within the category, five were from men,
four Crown directors and one specialist commentator. The woman who commented about political influence was a Crown director.

Although CCMAU provides information for directors, when participants were asked about how they found the material and what they used, most responses (10) to this question referred to the Institute of Directors as a source of material. An equal number of responses, from ten of the directors (three female and four male Crown directors plus three female private directors) indicated they did not seek much material prior to commencing their directorships.

4.8 New Zealand Selection Processes and the Impact of Politics

There were six questions designed to explore processes for director selection in New Zealand and the impact of politics on Crown director selection:

Q5 Please describe the way you believe directors are selected in the public sector in New Zealand? What are the advantages and disadvantages of this process?

Q6 Do you see similarities or differences between public and private sector director selection?

Q23 What is the contribution of the shareholding Minister in the appointment process?

Q24 When there is a change in government, have you noticed any differences in how the director appointment processes work and if so, what are they?

Q25 What, if any, changes would you make to the way in which directors are selected in New Zealand?

Q30 What are your views about the transparency of the government appointment process?

4.8.1 Analysis of Responses

Q5 Please describe the way you believe directors are selected in the public sector in New Zealand? What are the advantages and disadvantages of this process?

The responses to this question endorsed the long-standing anecdotal evidence regarding selection of Crown directors in New Zealand. The tenor of this anecdotal evidence is that while the Crown Company Monitoring Advisory Unit (CCMAU) is acknowledged as the key and formal link in director selection, it is but one component of Crown
Company director selection because of the *political influences* that operate. CCMAU was established in 1993 “for the purpose of providing the government with “accurate up-to-date information on the performance of the companies” (CCMAU, 2002, June, p. 2). Table 12 presents the breakdown of all responses.

**Table 12: Director Selection in the Public Sector in New Zealand**

<table>
<thead>
<tr>
<th>Category</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Female Specialist Commentators (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political influence</td>
<td>5</td>
<td>14</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>32</td>
</tr>
<tr>
<td>No idea what the government is doing these days</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Advantages</td>
<td>2</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Disadvantages</td>
<td>4</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>13</td>
</tr>
</tbody>
</table>

*Political Influence* The category of political influence emerged from a total of 32 comments (from the participant group of 43), with 19 from Crown directors (70%), three from female private directors (60%) and ten from specialist commentators (67%). The term *political influence*, or similar, has been used in my research results to classify answers to a number of different questions. While there are different dimensions and angles to the perceived political influence, the phrase is employed broadly, and indicates the general political overlay present in New Zealand Crown Companies and their boards. Accordingly, the term *political influence* has been employed again in this section, this time highlighting processes within CCMAU. Included within this category was mention of how CCMAU works, legislation pertaining to Crown Companies and the overall political environment surrounding director selection within Crown Companies. Typical comments were: “obviously a political process and I’m really quite relaxed about that. I think that it’s important that the political process takes responsibility for the public sector issues themselves”, “Through CCMAU and government political processes”, and, “they are selected through the political process and that means inevitably there is some political overlay in the final decisions”. The results show participants see political influence as a major contributing factor to the formal and overt CCMAU process. Also, the comments presented suggest an acceptance of the political process and, in relation to differences between public and private sector director selection, one male director commented:
Crown Companies, although they’re subject to the political influences, I think … the basis of the process is actually probably better than most private sector companies. Very few [private companies] go through a really objective process in appointing board members.

**Advantages and Disadvantages** In concert with the themes emerging in the previous commentary, the majority of disadvantages highlighted about the selection processes were in relation to the influence of political factors. Fifteen participants commented in relation to advantages or disadvantages in the selection processes, providing overall, seven advantages and 13 disadvantages. Of the advantages, four of the seven comments referred to generally good processes within CCMAU. The overall tenor of advantages was that CCMAU meets potential candidates and that they aim for a balance of experience, diversity, ethnicity and skills. Of the disadvantages, 12 of the 13 comments referred negatively to political factors in the processes, such as political interference such that appointments reflect “cronyism”, the “old boys’ network” or a “PC” (politically correct) bias in the public sector.

One male Crown director didn’t see advantages or disadvantages as long as there was a transparent process. Indeed, transparency was the essence of comments made in relation to the Appointment and Honours Committee, which was described as the part of the process where the names are submitted and no-one really knows what happens until the selection is made and the names are released.

**Q6** Do you see similarities or differences between public and private sector director selection?

In response to this question, participants tended to describe both perceived differences and similarities. Some responses included references to political factors, either in relation to the government environment or in terms of more generic understandings of the word political. The full set of responses to this question is presented in summary form in Table 13.
Table 13: Similarities and/or Differences in Public and Private Sector Director Selection

<table>
<thead>
<tr>
<th>Category</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Female Specialist Commentators (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differences</td>
<td>5</td>
<td>12</td>
<td>1</td>
<td>2</td>
<td>9</td>
<td>29</td>
</tr>
<tr>
<td>Similarities</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Influenced by political factors</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Don’t know enough about the private sector</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

The greatest number of responses (29) concerned the differences between the public and private sector selection processes. Details of responses are as follows.

Differences Of the 29 comments in this category, 13 were from Crown directors, one from a female private director (50% of the entire director pool) and 11 from specialist commentators (73% of that pool). Responses in this category came mostly from the men – 12 directors (75%) and nine specialist commentators (90%). The differences were described by identifying norms of either the private or public sectors such as skill balance across the board, competence and experience in the commercial sector and heavy reliance on the old boys’ network. Comments included: “the private sector looks at the overall mix of skills needed”, “process probably more focused and more objective than the private sector”, “public sector obviously much more rigorous because of the number of people handling it, private sector generally goes out and finds someone who will complement the skills on their board in a much less formal process”. The tenor of responses were mixed but generally indicated a perception that the public process is more open than that of the private sector with the private sector easily able to include the CEO on the board and perpetuate the ‘old boys’ network’. However, it was also suggested that the private sector can be more single minded and appoint for hard-edged commercial skills whereas the public sector has to consider legislation and gender issues.

Two stated differences are noteworthy as they complemented (and implicitly contradicted) each other. One male Crown director noted that the private sector “looks at the overall mix of skills needed” and one male Crown director stated: “in the public sector we get the right mix of people but not necessarily the people we need”. The
diversity on public sector boards was also noted by a male Crown director who said: “The government is very good at getting gender mix and very good on introducing first time directors to entities and they definitely look to have a mix of women and males”. However, this same director also said the old boys’ network is not like it used to be “but it’s still alive and well” and that director selection is “much more skills and ability based now than it used to be”. While these comments provided various aspects of director selection, a female Crown director noted that the private sector is different in that it is “still overwhelmingly male”, but that, “In the private boards that are not listed, you tend to find more women so that you’ll find that once a woman has made a kind of a name for herself… these kind of people begin pretty quickly to have membership of half a dozen of those [boards]”. This same director also noted that for the public boards, “the range of people from whom they select their membership is pretty limited”. There was quite a comprehensive picture of current director selection in the public sector with an acknowledgement of convention (the old boys’ network) and newer trends considering aspects of gender and diversity in board composition.

In total, five comments (from the pool of 43 participants) focused on similarities between public and private processes. Words such as “network” and “cronyism” were used in describing the similarities in director selection processes for both private and public boards. In general, similarities focused on the process of appointing via contacts (although this was a feature of the ‘differences’ responses also). A further suggestion was that the private sector followed a similar process to that of CCMAU, but was less bureaucratic.

Influenced by political factors Thirteen responses suggested that there were deemed to be political factors operating in both the private and public sectors. Of the Crown directors who referred to political factors, seven (six males; one female) referred to them in terms of government influence and two (one female; one male) as a more generic reference – the political practices (or operating styles) of organisations. The female private director referred to both politics and government influence. Three specialist commentators also focused on politics, one male in relation to government influence and a male and female in terms of practice. The male suggested:

The private sector selection isn’t as open and transparent as the public. The qualities that you had to have to get on a board was to be white, male, an accountant or a lawyer and a member of the Wellington Club.
Comments from the woman included:

I have to say, that I think that just as many deals get done in the private sector.
I’m appalled at some of the appointments on private sector boards, absolutely
appalled. Boy, if that ain’t the old boys’ network running…

but added:

I don’t mean the old boys as in a gender thing. I just mean that as a very
closed shop. And, I mean, we only need to look at the number of well known
directors who have got multiple directorships.

The Crown boards, as participants have indicated, are tied up with a political system so
influence from the government sector is inevitable to some extent. However, there are
also aspects of political practices within businesses that influence director appointments
which these comments uphold.

Don’t know One female private director and two specialist commentators indicated that
they did not know what the similarities and differences were.

Q23 What is the contribution of the shareholding Minister in the appointment
process?

Responses for this question were consistent in that most saw the minister as an
important influence.

Significant The largest numbers of responses (25 out of a possible 43) came within this
category. Thirteen Crown directors (57% of the total Crown director pool) and 12
specialist commentators (80% of the total pool) described the contribution by drawing
on words such as: “significant”, “definitive”; “almost central”; “ultimately it’s a
Ministerial appointment and the Minister must be satisfied”. Table 14 highlights the
pattern of responses.

Table 14: Contribution of the Shareholding Minister in Appointment Processes

<table>
<thead>
<tr>
<th>Category</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Female Specialist Commentators (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant</td>
<td>6</td>
<td>7</td>
<td>0</td>
<td>2</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Don’t know</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Should be stronger</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Can be of great value to boards</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>
Don’t know  There were 11 comments (from the total pool of 43 participants) classified as ‘don’t know’. Eight of these comments came from Crown directors (a group of 23 people), with the tenor of those comments indicating a link to the political environment within which Crown Companies operate. Examples of responses include: “We really don’t know”, “I never get to see that end of the process”, “I just received a letter telling me that I had been appointed” and “it’s a mystery as to what happens when recommendations go in one end and what comes out the end”.

Should be stronger  Two of the five female private directors suggested the contribution of the Minister could be stronger with the other comment being: “They don’t understand the block beneath them”.

Can be of great value to boards  Two of the 16 male Crown directors suggested Ministers can be of value or could be a sounding board for board decisions.

Q24  When there is a change in government, have you noticed any differences in how the director appointment processes work and if so, what are they?

Responses to this question, which implies the possibility of political ideology influencing appointments, were usually prefaced with a direct yes or no then qualified with other statements. Essentially there were mixed views about whether the change in government made any difference to the director appointment process; ten participants prefaced their response with yes and 11 with no. Responses fell within the following categories:

Influenced by political factors  There were 24 responses that referred to political factors. These comments emerged from the responses of 13 Crown directors, two female private directors, and 11 specialist commentators (just under three quarters of that group). The following two quotes highlight contrasting perceptions:

A young, female, very skilled in finance/accounting/investment, …was chair of the finance audit and risk committee and, notwithstanding her willingness to be reappointed, and the skill set and experience that she could bring and had contributed to the board, she was not reappointed,

and

I think you’ll find that the processes in terms of governance or company appointments in Crown entities pretty well is the same and it carries on in spite of which government comes in.
Participants’ comments did not present as overtly negative regarding perceived political influence, they were more like observations of the environment. The substance of comments was summed up by a male Crown director who said:

I don’t think there’s any question about it. I don’t think it’s extreme and I don’t think it’s a political scandal, but I think that there’s a slant. I mean you’ve got to be careful with labels and labels can mean whatever you want them to mean, but I don’t think there’s any doubt that if a left leaning government comes to power then over time there appointees tend to reflect that and equally well, when a right leaning government comes into, over time their appointees tend to reflect that. I think New Zealand Post is a very good example of those only to a degree and doesn’t always hold, because you’ve got Jim Bolger as Chairman, appointed by a Labour government. So I think it’s just a leaning and I don’t think it’s to the extent that it’s a serious problem.

Other comments included: “there’s more awareness now to get quality people” (one male director), “I’ve not been on a board during a change in government” (one female and one male Crown director), and “I’ve been appointed by both governments” (two male directors).

Q25 What, if any, changes would you make to the way in which directors are selected in New Zealand?

When asked about changes that could be made to NZ selection processes for directors, there were once more references to wanting less politics and there was a strong focus on the need for transparency, objectivity and less of the ‘old boys’ network’. Table 15 shows the range of responses to this question.
Table 15: Possible Changes to the Appointment Processes

<table>
<thead>
<tr>
<th>Category</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Female Specialist Commentators (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Want less politics</td>
<td>2</td>
<td>6</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>More formal processes</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Believe the process is robust</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Advertising and publicity</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Remuneration affects those prepared to be involved</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

The desire for less politics was matched by respondents’ identification of a need for more formal processes in director selection so that the appropriate matrix of skills can be achieved (12 comments for each category – 28% of the entire interview pool of 43 people). Interviewees were particularly concerned about the need for a good pool of directors, that attention be given to qualifications, experience and merit, and that there be good director training.

Want less politics  Representative of the 12 comments reflecting a view that less politics would be an improvement, were statements such as: “I think as far as the government is concerned there should be less interference and…I mean, I think that competence should be the over-riding issue” and “My objective would be to break out from what I think is too narrow a field, too restricted a field. Now, historically, I would have said that that field is narrow because it was, to a large extent, an old boys’ club”.

More formal processes  From the 12 responses calling for greater formalisation, comments included: “It’s got to be this much more formal process where you … look at the current board and the skills they bring. Look for the gaps” and

I would like to see much…far more objective processes. …I think people don’t look wide enough. They tend to look within the range of people they either know or who their advisors know… I would like to see far more boards use, either an advertising process…to seek a broader range of candidates. I would like to see boards recognising that here’s a genuine profession.

Believe the process is robust  There were also eight responses (seven Crown directors – 30% of the Crown director pool) who expressed the opinion that the NZ selection process for directors was sound.
Interestingly, Crown directors’ views were evenly spread across the three main categories identified: seven sought more formal processes, eight wanted less political influence and eight regarded current processes as robust.

**Advertising and publicity** Five comments felt that the process could be improved through greater publicity. Three who expressed this view were male directors and the tenor of their responses was that more advertising and publicity would benefit boards as they could then “seek a broader range of candidates”.

**Remuneration** Several respondents suggested that remuneration was a factor that could be changed for the better. There were four comments, three of which came from Crown directors and one from a male specialist commentator. Examples of the type of comment are: “I think the Crown pays very badly…a lot of people don’t get involved, a lot of good people don’t get involved” and

I think another is people of calibre saying, “Is it really going to be worth it? Am I getting enough money to justify the kind of risk I’m exposing myself to and the expectations there are today?” So I think that you’ve got to raise the average payment form for directors.

Crown Company directorships were not considered by some to be well remunerated (up to $50K for Chairs and $24K for directors at the time of interviews) and it was felt that this adversely affected the pool of people who made themselves available for these positions.

Other suggested changes were:

**Training** Two participants (one male director and one male specialist commentator), suggested that director development opportunities could be improved, with comments such as: “I think that there are questions about better training, better understanding”.

**Greater shareholder input** One male director and two male specialist commentators presented comments such as: “I think that if…the shareholders will be the ones that want appropriate skills on the board and that should be driving feature of the selection of a director”.

**Fewer representational groups** One female private director and one male director commented that changes could be made to board representation. The male director noted that representation does not give effective governance, intimating that there can
be a focus on representing the group rather than undertaking an objective governance role.

**Fewer numbers of directors** Reflecting on a factor that had impacted on some of her previous governance experience, one female private director commented that she would favour smaller boards.

**Don’t know** One male director and one female private director did not know what changes they would make.

**Q30 What are your views about the transparency of the government appointment process?**

There was a range of views expressed in response to this question, as detailed below:

**Sufficiently transparent** Thirteen responses (just under a third of all participants) indicated that the government appointment process is sufficiently transparent. Typical comments were essentially neutral and were along the lines of: “pretty transparent”; “transparent in its result; there is transparency”; “probably more so than private”; “probably I think the system is good, as good as anywhere else in the world”.

**Influenced by political factors** Twelve statements (again, just under a third of all participants) referred to the way in which the Minister, or government processes in general, impact on the transparency of Crown board appointments. Five of the statements were accepting of the process, such as: “should be fairly transparent with the caveat that the Minister does have the final say”, “there’s quite an assertive process that should, one way or t’other, shake out bad appointments”, and “people are aware that a Minister generally makes and appointment”. The other seven comments, however, were critical and included: “it goes into the political side and I don’t know what goes on there”; “politics gets involved with good procedures”; “we should be doing as much as possible to depoliticise the public sector governance structures”; and “don’t know how many jobs for the boys as opposed to merit”.

Two comments questioned aspects of transparency, one being: “transparent to who?” from a male Crown director and “Who am I to decide better?” from a female Crown director.

In addition to commenting in support of the transparency, one male Crown director injected another aspect of transparency, that of understanding how to operate within the
Crown structure. This included a degree of political maneuvering as evidenced by the following comment:

> We need to have a certain make up at XX. XX is in business in significant reorganisation. I have gone to CCMAU and explained what I want. They’re now finding people. I have said, “If I don’t get the type I want, I will want to go and see the Minister and pitch for what I want.” I would expect that the Minister would support that.

### 4.8.2 Summary: New Zealand Selection Processes and the Impact of Politics

Responses to questions within the political theme show participants are aware that, in Crown Company boards, influence by political factors does feature in the director appointment process. Politics emerged as a response theme common to every question. And recognition of the inevitability (and acceptance) of political influence was evident in such comments as: “At the end of the day, under our system, the government acts in the interests as the owner and they’ve got to make a judgment call. And, it’s entirely appropriate that it’s done behind closed doors”. This perspective was further substantiated by the vignette of a male Crown director regarding an incident on his board who said:

> We’re creatures of a political process and we cannot be above the political process. And whether we might like it or not, and whether it’s comfortable or not, in accepting an appointment to an SOE board, you’ve got to be prepared to be accountable to the political game.

Across all of the six questions within this section, references to politics ranged from 12 to 32. This tally includes question 25 where there were 12 comments expressing a wish for less politics. Depending on the question, a range of just under a third to around two thirds of participants expressed a view on politics.

Overall, it was clear that directors understand the need to contribute to the governance role regardless of the political influences. Comments about political influence, the role of the presiding Minister, changes implemented by new governments and the overall transparency of the appointment process, generally attracted comment from just under a third of Crown directors. There was no overwhelming criticism of any of these issues but there were comments about changes they believe could and should be made to the
appointment process. For example, some felt that formal and systematic procedures in assessing director candidates’ qualifications and experience were lacking and a male Crown director commented:

They [directors] are selected through CCMAU and through government and political processes…In a way I think it’s the wrong way around in the sense that I’m not aware that they do any skill set testing of the existing board. To me, the way that a board should be selected is that you look at the skills that are required for a particular board, and this might be in the form of a matrix. So, you look at the skills that are required for this particular board, and that may vary. Say, for example, you might have a company that is very strong on technology, so you want someone with strong technological skills.

In a similar vein, another male Crown director commented:

There are pros and cons to the CCMAU process. I think what we ended up with is basically self selection. We’ve got a small pool of people who are willing to be directors…. One of the big problems I think we have is by trying to meet gender balance, because it’s a political process, there’s various interest groups. Do you want a board that is of the appropriate balance and the right mix of stakeholder interests, as opposed to a board that is capable? It’s a continuing contention and I think we often get it wrong. Now that’s a challenge for CCMAU which actually runs a pretty thorough process, but, at the end of the day, then still goes up through Appointments and Honours and it’s a mystery as to what happens when recommendations go in one end and what comes out the end.

In essence, New Zealand director selection for Crown Company boards follows both legislative mandate and CCMAU processes. Both of these are subject to directives from the incumbent Government – either through the presiding Minister or the Appointments and Honours Committee. Perceptions of positive or negative aspects of these processes vary, as do those of transparency.
4.9 Training

Two questions focussed on training with one placed near the middle of the interview and one at the end. These questions were:

Q12 Should directors have training for their role and if so, at what stage/s?
Q33 What efforts did you make to prepare yourself for director candidacies?

4.9.1 Analysis of Responses

Q12 Should directors have training for their role and if so, at what stage/s?
Yes Thirty-seven of the 43 respondents (86%) agreed that directors should have training. Support for the notion of training came from seven female and 15 male Crown directors, all five female private directors as well as ten of the 15 specialist commentators. Responses were often emphatic – “of course”, “essential”, or “everyone needs training” and were followed by explanations and amplification as listed below.

All stages Over a third of all directors expressed support for director training at all stages of board tenure and experience.

Induction / prior to appointment Sixteen directors (13 Crown, three private – 57% of the entire director pool) and six specialist commentators (almost half of that pool) favoured training as a part of early or initial director service.

Formal and Informal Training Eighteen comments were made about formal and/or informal training. Of those, 13 (including 10 Crown directors) referred to the usefulness of formal avenues such as the Institute of Directors (IoD), the Institute of Management, and the Chartered Secretaries New Zealand Inc. Four directors (two Crown and one female private director) made reference to the need for both formal and informal training, with the informal training focusing more on ‘on the job’ training, essentially the experience gained in attending board meetings.

Q33 What efforts did you make to prepare yourself for director candidacies?
This question was asked of directors only and was at the end of the interview. By that time, in response to various verbal and non-verbal cues, it was sometimes omitted. Sixteen Crown directors and three female private directors (19 of the total director pool of 28) answered the question and responses were as follows:

Broad personal preparation Of those asked, thirteen (six female and six male Crown directors and two female private directors – 46% of the director pool) stated they had
embarked on self preparation, responses encompassing a range of activities: “kept myself informed”, “started with the statute”, “I’ve done a Masters in Business Administration”.

**Attendance at courses** Just under half of those asked this question (7 of the 18) stated that they had attended courses – mainly IoD courses.

**Experience** Seven comments, mainly from male directors, were made about life experience and management experience as avenues for preparation. Two of these respondents referred to life experience and three to management experience. One female Crown director referred to management experience and one female private director referred to life experience. It is noted that overall these numbers are not great compared to those responses that highlighted personal preparation.

**No preparation** No preparation was mentioned by two female and four male Crown directors and one female private director. They explained that there had been an immersion into governance experience via peripheral involvement with boards or discussing requirements of the role with others, or by being tapped on the shoulder.

4.9.2 **Summary: Training**

There was unequivocal support for director training, with statements referring to its value prior to appointment, on an on-going basis while undertaking directorships, and through both formal and informal means.

Twelve directors responded to this question in terms such as self preparation, management experience, life experience, attending courses or a combination of those strategies. Seven directors stated they had not done any specific preparation and their appointments arose through being approached or pursuing their interest in governance to the successful outcome of appointment.

4.10 **Board Composition and Diversity**

As highlighted in the review of literature, board size and diversity has featured in the general governance debate and also in relation to New Zealand Crown Companies. In order to understand perceptions of these issues seven questions were raised with participants during the course of the interview. The questions were asked of both groups of participants – directors and specialist commentators.
These questions were:

**Q16** Has attention to issues of diversity impacted on the make-up of your board and/or the board dynamics? Please elaborate.

**Q17** Do you think men and women directors on boards are essentially similar or essentially different? Please elaborate.

**Q18** Do you think more women on boards will bring about change? In what ways?

**Q19** When Jenny Shipley was Prime Minister she set a target of 50% women directors on public sector boards? Do you see advantages or disadvantages of setting such targets?

**Q27** Diversity has been defined as a “broadening of the merit principle rather than an argument for representation” (Burton, 1991, p. 43). Do you relate diversity and merit or see any connection between the two?

**Q28** Can you describe an incident when ethnicity affected governance?

**Q29** Do you perceive that there are any or many cases where the ‘best person’ is not appointed? Please elaborate.

As in previous sections, responses will be analysed question by question followed by a summary of responses to all seven questions on board composition in terms of size and diversity.

4.10.1 **Analysis of Responses**

**Q16** Has attention to issues of diversity impacted on the make-up of your board and/or the board dynamics? Please elaborate.

Although this question refers to your board, the question was asked of specialist commentators with it being re-phrased to encompass boards these participants may have been involved with. This meant that the total pool of respondents was 43. Analysis of responses produced the following categories.

*Yes* Twenty three responses (53% of the interview pool) that commenced with yes or “very definitely”, suggesting that indeed there is a perception that attention to issues of diversity has influenced the range of background and experience on New Zealand boards. Affirmative responses were frequently accompanied by explanatory statements, which are presented in summary form below:
**How diversity has impacted make up of boards** For each of the 23 *yes* statements there were 13 explanations about the ways in which the impact of diversity had been felt on boards. Typical statements were: “it’s quite a diverse board with quite different perspectives”, “a board has to be diverse; it can’t be specialist” and “My observation is that diversity … [has] had a negative impact … [but] diversity isn’t an issue about quality”. One ‘diversity’ vignette provided by a director set out the following scenario. A non-European female was appointed to a board but did not contribute fully because a male of the same ethnicity was also on the board and, for cultural reasons, the female deferred to the male. In this account, from a female board member (not a chair), the apparent lack of full participation was seen as a hindrance to the board. The woman recounting the incident believed that this attempt to achieve a more diverse board had resulted in no value to board function because participation and contributions during meetings were limited. Two issues are of interest here. Seven comments were positive about diversity, five of these positive comments coming from directors (18% of that pool). Three comments were more negative, all from directors.

**Support for diversity** Taking into account all responses, irrespective of whether they were prefaced by *yes*, 30 comments emerged in support of board diversity: 22 from directors and eight from specialist commentators. The majority (20) were from males. Of these, 13 were from male Crown Directors (81%) and seven (70%) from male specialist commentators. Typical comments included: “you’ve got to have diversity”; “diversity keeps you flexible”; and “it’s brought in a wonderful range of dynamics”.

**Influenced by political factors** There were eight responses in total, seven of these from women (three Crown directors and four specialist commentators), stating that political influence has steered consideration of diversity issues on the board. Most participants accepted this with comments that included: “the last two Prime Ministers made it clear that they expect diversity”, “it underpins some aspects of the legislation”.

**No diversity for the sake of it** There were five comments, four from male Crown directors (25%) and one from a female private director (20%) that were essentially negative about a process in which diverse membership was the key driver for overall board composition. Comments included:

I wouldn’t like to see diversity just for the sake of diversity. So, I don’t think you should have…do you want me to be blunt? … the token female or the token Māori. I mean, to me if people can contribute and they just so happen to be Māori or female or white male or black male, then that’s fine. But, to me, I
don’t necessarily look at colour or gender, I just look at their skills, capability or experience, quite frankly, it’s not an issue for me.

A similar comment was:

I have got some reservations about quotas and deliberate attempts to diversify. … I would not support an approach where it said we must have an equal distribution of male and female per se.

No Three participants – two female private directors and a male Crown director – said that diversity had not impacted on the make up the board or the board dynamics. Comments included reference to specific industries where they focus on the activity of that industry, such as: “Not in the technology industry companies”. One female private director was disparaging of lack of diversity saying: “I think there are many boards still stuck in their comfort zone”.

In summary, the majority of participants claim diversity has impacted on their boards. Responses suggesting that this impact had been positive (30), outnumbered those which expressed the desire not to have diversity for the sake of it (5). Additionally, there were eight responses that tended to highlight the political necessity of diversity.

Q17 Do you think men and women directors on boards are essentially similar or essentially different? Please elaborate.

Responses to this question fell within the following categories.

Similar Twelve participants – eight Crown and two private directors (36% of all directors) and two specialist commentators (13%) – suggested that women and men are similar on boards, with comments such as: “You have a job to do, you apply yourself best you can”. In terms of gender balance, comments came from five female directors (three Crown, two private – 41% of female directors), one female specialist commentator, five male Crown directors (31%) and one male specialist commentator. The six responses from females represents a third of the women interviewed (Crown directors, private directors and specialist commentators – 17 people) and the six responses from males represents one quarter of the men interviewed (Crown directors and specialist commentators – 26 people). Observations about similarities between men and women on boards were made more by females than males.
**Mixed responses** Eleven of the 43 participants (six Crown directors, one female private director and four specialist commentators) gave equivocal responses. In terms of gender balance, comments came from six women (four directors and two specialist commentators) and five men (three Crown directors and two specialist commentators). It was common for people to make an initial response in one category but to then qualify it with comment that fitted the second category. For example, one female private director said: “There are differences but I don’t think all women think differently”. A male director said: “Fairly similar. Differences come from experiences”; and a woman specialist commentator said: “Similar; the difference is in how they apply their skills”.

**Different** Ten responses suggested differences were perceived between men and women on boards. Six of these claims were made by directors and four by specialist commentators. In terms of gender balance, comments came from five females (two Crown directors, two private directors and one specialist commentator) and seven males (four Crown directors and three specialist commentators). Comments about the differences were portrayed in positive terms, whether directly about women or about how gender impacts on performance, as evidenced by comments such as: “I’ve always believed that women are better problem solvers, because of the way in which they work” and “I think they [women] are more efficient. I think they know what the issue is, they don’t get sidetracked”, and

In my experience, men tend to approach governance matters in a pragmatic way, they’ll get to the answer quite quickly, whereas women tend to temper that with a more emotional approach first before they get to a solution – that’s the nice tension between those approaches – [and] I think, leads to a reasonably robust, considered answer.

**Focus should be on merit not gender** Two responses, both from male Crown directors, suggested that gender is not a useful division to consider. Comments included: “I see a director as a director irrespective of gender” and “gender doesn’t matter – it’s what they offer”.

**Neutral** Three comments were not prefaced by reference to similarities or differences. These included: “God only knows. All I know is that those [women] that I’ve dealt with have been extremely competent” and “I’ve never considered it”.

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Where participants focused on similarities, they highlighted the professionalism of the way the governance role is undertaken. Where the focus was on differences, comments heightened the competencies of women and mixed responses gave a focus on ways of operating.

Q18 Do you think more women on boards will bring about change? In what ways?
Direct responses in the yes/no categories were again spontaneous and then explained in the follow-up comments. Most of the yes/no responses came from directors. Table 16 shows the pattern of responses.

Table 16: Will Women on Boards Effect Change?

<table>
<thead>
<tr>
<th>Category</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Female Specialist Commentators (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>4</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>14</td>
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<tr>
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<td>4</td>
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<td>11</td>
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<tr>
<td>Focus should be on merit not gender</td>
<td>4</td>
<td>9</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Benefit of women’s Skills</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>You’ve got to have Diversity</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>4</td>
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<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>I don’t know</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

No There were 14 negative responses regarding women’s presence on boards as a possible catalyst for change. Ten Crown directors and one female private director (39% of the director pool) said women on boards will not effect change. Three of the 12 specialist commentators made the same claim.

Yes Eleven participants said women will bring about change to boards. Nine were directors (five females – one Crown director and four female private directors – and four male Crown directors – 32% of all directors) gave a direct yes as did two specialist commentators (13% of all specialist commentators). Statements were then qualified and have been attributed to different categories, which are discussed below.

Looking only at the yes/no responses, six females suggested women will bring about change and six females said they would not – in each case that was just over a third of
the 17 female participants. Of the males, a total of five (from the 26 males interviewed - or 19% of male respondents) said women would bring about change and eight (31%) said they would not. Female participants were more likely to have a clear opinion on the potential impact of women on boards, but that opinion was evenly split. Fewer males expressed a clear opinion about the impact of woman on boards although more of them were likely to think more women on boards would effect change.

Comments about the impact, or otherwise of women, were categorised as follows:

*Focus should be on merit not gender* Eighteen respondents (from the pool of 43), when asked about whether more women on boards would effect change, said that gender was not a useful division and that merit is an important focus. Most (13) of these comments were made by directors and five by specialist commentators. In terms of gender, half of the males (across both groups; directors and specialist commentators) referred to merit in their response to this question, whereas fewer than a third of the females (across both groups) mentioned merit.

*Benefit of women’s skills* Seventeen additional comments focused on the presence and contribution of women on boards. Eleven of the directors and six specialist commentators believed women would have a positive impact. Typical responses were: “you need a lady perspective”; “more attention to the people side of the business”; “it should bring about enhanced outcomes for the companies”; and “there would be more thinking going on”. In terms of gender, eight women and nine men referred to the benefit of women’s contribution.

Responses indicated consideration of merit is important and that there is value in the appointment of women to boards because of the ways in which they contribute. Neither category dominated, but the question was in two parts so there were 18 responses (42% of the interview pool) identifying merit as the essential focus for board appointments, before gender. Seventeen participants (40%) commented on how the appointment of women will bring about change, with that change being attributed to the calibre of their contribution as opposed to change simply because they were female or because their appointment, based on gender, would inevitably result in a lower calibre of contribution available to the board.
Q19 When Jenny Shipley was Prime Minister she set a target of 50% women directors on public sector boards? Do you see advantages or disadvantages of setting such targets?

There were few direct responses to this question in terms of advantages or disadvantages (six of the total pool of 43 referring to disadvantages and four to advantages). Comments about disadvantages included: “It can lead to condescension” and “Disadvantages. I mean, boards should be comprised of the best persons available for the job”. Comments pertaining to advantages included: “The principle of it I quite agree with”. In the main, however, both directors and specialist commentators referred to issues other than targets as being important, as follows.

Focus should be on merit not gender There were 18 comments from directors and ten from specialist commentators giving this view. Among the director group, six of those who emphasised merit were female Crown directors, two female private directors and ten male Crown directors. In the specialist commentator group, there were four females and six males who mentioned merit over gender considerations. Of those who responded to the question (and not all specialist commentators did) and combining both groups of females, there were 12 comments from females supporting merit (or just over 70%) and from both groups of males, there were 16 comments (or just over 60%). In essence, merit was an issue of importance to both groups of participants and both men and women. Typical comments here were: “I’m always reluctant on targets. I think common sense should dictate that we have a balance on boards”, “There should be no tokenism” and “You start setting targets and the resentment that builds up”.

Other issues to consider In the main, comments acknowledged gender as part of a useful board mix but focused on the need for a broad perspective and balance in how board composition is determined – with gender balance being desireable, but not over-riding other issues to serve the board’s needs. Seventeen comments identified other issues to consider that included:

It depends on what the board is. If it’s a board that’s dealing with social issues, or those sort of things, then having a board which reflects that community or interest, or what they’re trying to do or who and how they’re trying to do it, it makes sense.

Influenced by political factors Three comments referred to political factors, one from each director group. Comments included: “I have fewer problems with that than the politicisation of appointments” and:
I think that was a bit of a political statement and all the rest of it as well. If you set targets like that, and you’re in politics, you say, “We’re setting 50% women targets. Oh my goodness, we’ve said that; we’ve got to do it.”

In essence, 28 of the 43 participants were of the view that merit should take precedence in considering the makeup of New Zealand Crown Company boards and attention should be paid to the skill requirements of the board. Part of the focus on merit showed that participants believe targets can compromise governance ideals.

Q27 Diversity has been defined as a “broadening of the merit principle rather than an argument for representation” (Burton, 1991, p. 43). Do you relate diversity and merit or see any connection between the two?

Responses to this question were mixed, with seven answers prefaced with yes, six from directors. Three male directors prefaced their answers with no. Elaboration on those immediate responses fell into a number of theme categories.

Focus should be on merit not gender Eleven comments, representing one quarter of the interview pool, reflected a belief that the focus should be on merit over gender. This group comprised seven from directors (three female Crown directors, four males and one female private director) and four male specialist commentators. Representative comments were: “Merit has to be there first”, and “Merit, absolutely”.

Focus should be on diversity Within this category were comments from three directors (two female private directors and one male Crown director). Comments conveying this view were: “a board is the richer and more functional and competent because of some diversity” and “diversity is … a means to getting the best person, a broadening in your perception of what’s the best person”.

An accommodation between merit and diversity Ten participants (five directors – one female Crown and four male Crown directors – and five specialist commentators – 23% of the entire interview pool) presented the concept of “accommodation” as the better approach, with comments such as: “I think in the ideal world, hopefully you can get both merit … so someone who has a set of skills – and if they also bring diversity to a board, be that gender, ethnicity, geography, whatever, that would be fantastic, but that’s a bonus”; and “I agree with the proposition that greater diversity will improve the quality of governance, but with the proviso…[that] those people have got to be up to it, not just because of the class they represent”.

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Other comments included three respondents explaining that they would prefer diversity and merit to be clearly distinct issues and two who said they do not consciously consider either diversity or merit.

Overall, question 27 saw 11 responses in favour of focusing on merit and ten on an accommodation between the two, with only three comments indicating support for diversity.

Q28  *Can you describe an incident when ethnicity affected governance?*

Thirteen of the 43 participants (ten directors) said ethnicity had not affected governance in their experience. Fourteen responses (13 from directors) were prefaced with *yes* and either qualifying statements or examples of that effect. Table 17 shows the types of comments made and whether they were essentially positive, negative or neutral.

**Table 17: Comments about Ethnicity Affecting Governance**

<table>
<thead>
<tr>
<th>Category</th>
<th>Female Crown Directors (7)</th>
<th>Male Crown Directors (16)</th>
<th>Female Private Directors (5)</th>
<th>Female Specialist Commentators (5)</th>
<th>Male Specialist Commentators (10)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>Qualifying statements</td>
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<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Examples / Comments</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Qualifying statements plus examples / comments</td>
<td>5</td>
<td>8</td>
<td>3</td>
<td>2</td>
<td>8</td>
<td>26</td>
</tr>
<tr>
<td>Positive comments</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>3</td>
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<tr>
<td>Negative comments</td>
<td>0</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Neutral comments</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>11</td>
</tr>
</tbody>
</table>

*Ethnicity affects governance*  Looking at all responses, not just those prefaced by *yes*, there were 16 responses from the 28 directors (57%) and ten from the 15 specialist commentators (67%) in relation to ethnicity affecting governance (60% of the entire interview pool). Of the comments from directors, eight said ethnicity did affect governance, six said it did not, and seven were neutral. From the specialist commentators, two were positive, three were negative and four were neutral towards the proposition. Not all of the comments described an incident but, instead, referred to their experience of the impact of ethnicity in the governance arena.
Comments claiming that ethnicity affects governance included one from a male specialist commentator who cited a situation where a board member who would not make a decision without first consulting with others outside of the boardroom. Other negative comments included: “We’ve had a Māori appointed because we have to and I don’t think she’ll be good” and “directors have pushed a line because of their ethnicity and it’s never good”.

Positive comments included description from a male specialist commentator of a board chair who was ethnically different from the board’s majority shareholding with whom he needed to work, and was sensitive enough to learn and appreciate the cultural differences, convey that understanding to board members and as a consequence, run an effective board. In another instance one of the male directors recounted his experience as board chair, when he provided information and implemented processes to ensure all board members could participate from the same base point. His comment was:

In the case of XXX, I have a number of directors who are Māori and Pacific Island, who have, I know, deep seated reservations about [specified subject]. It hasn’t affected decision making, but it has led me to make sure that they have been properly briefed so that we could have proper discussions so they understand why [this field] is moving forward the way it is, why it does what it does, why we think this science is going to be important in long run, and we can’t not do it. You have to take account of that, you can’t ignore it.

In terms of responses that I have classified as neutral, one board chair said he could not cite an example in absolute terms but stated one of his boards had a membership from two or three ethnic backgrounds which meant those people, with both the flavour of contribution and presence, provided a constant reminder of the larger community the board served.

The type of comments for this question indicate that there is no typical experience in relation to governance and ethnicity, but when the board’s composition is determined by consideration of ethnicity, there may well be a difference in the overall dynamic and in how the governance is undertaken.
Q29  Do you perceive that there are any or many cases where the ‘best person’ is not appointed? Please elaborate.

Responses regarding perceptions relating to whether there were situations in which the best person was not appointed were as follows.

**Yes**  Affirmative responses to question 29 came from 18 of the 43 participants, 14 of whom were directors (three female and seven male Crown directors, four female private directors or half of the entire director pool) and four of whom were specialist commentators (one female and three male, one quarter of the specialist commentator pool). Typical comments included: “On a regular basis”; “trend for just taking women for the sake of women, Māori for the sake of Māori”; “I’ve had few duds on boards”, “sure there are but my judgment of the best person may be totally different from somebody else’s judgment” and “The best person is subjective as well”.

**No**  There were six comments that suggested disagreement with the suggestion that the best person was not always appointed. Five of the respondents who answered ‘no’ were male Crown directors. One female private director advised that not appointing the best person was not common in her world – but noted the practice in government circles.

**Influenced by political factors**  Political factors again emerged as a significant theme when it came to identifying reasons for the best person possibly being overlooked. Twelve comments referred to the political environment (28% of the interview pool), eight from the three director groups and four (male) specialist commentators. Of the directors, three female private directors noted that their awareness of political factors had come throughout the governance realm. Comments within this category included: “you find that the politics of the situation and personal interest or the personal preference of the situation sends that person down”; and “I’ve seen instances where I believe people have been appointed because of their historical directorships”. These comments tended to be within the broad political spectrum, encompassing both aspects of government influence as well as the politics of organisations.

The numbers for yes responses (18) and political factors (12) suggest participants believe there are times when the ‘best person’ is not appointed and that some of the reasons for this, as noted above, relate to both government and broader political behaviour.
4.10.2 Summary: Board Composition and Diversity

In respondents’ answers to questions designed to explore merit and diversity on boards, diversity was generally acknowledged as important in relation to board composition. Indeed, statements indicating support for diversity were particularly frequent (30 comments, or 70% of the respondents). That said, responses also indicated that merit should be preeminent over diversity. Whilst participants recognised some value in board diversity, merit, or a combination of merit and diversity, was nevertheless most important in order to ensure the best possible quality in terms of board composition.

When asked whether there were many or any cases when the best person is not appointed, almost half the respondents answered ‘yes’. Thus, despite the perceived importance of merit, participants believed that best (or merit) is not always observed, largely due to political reasons.

Adapting to a change to board membership that brought a new element of diversity was sometimes challenging. For example, one director recalled how a group of directors, newly appointed to a board, came to work well together. The background (age, ethnicity, gender) and experiences were diverse and the director estimated it took around three to four months for them to settle but that the decision making and overall governance processes ultimately worked extremely well within the group. The interviewee recalled one specific incident when the board debated for around 40 minutes, resulting in a decision that no one individual could have reached alone and which everyone agreed was the absolutely correct decision. This incident was recalled as a successful outcome. Whether, or to what extent, elements of demography, homogeneity, heterogeneity, pluralistic ignorance, groupthink and/or ingratiation might have operated, is unclear. The director who recounted the story was the board chair. He did not indicate that the decision was one he had privately hoped for, but he was apparently convinced that it was a completely independent outcome of a diverse board functioning well.

Gender was explored as a particular type of board diversity. Many considered that gender was not a useful distinction in relation to board composition and performance. Rather, respondents again indicated that participants believed that appointments of directors should be based on merit rather than concerns with achieving a balance
between men and women. Comments showed that there are a range of perspectives on the value or otherwise of women on boards per se but in the main, merit should not be compromised by a singular focus on gender or diversity.

When the issue of ethnicity was canvassed, respondents expressed a view that this may have impacted on the governance of Crown Company boards. Their assessment of whether the impacts were positive, negative, and the perceived degree of the impacts, varied across the group.

Section 4.11 provides a summary of key results identified in this chapter.

4.11 Conclusion

The findings have revealed that participants perceive a number of core and recurring themes and issues that impact on the role of director and the composition of effective boards.

- Directors require a credible skill base. Within the board there should be a range of skills as well as elements of expertise.
- Perceived director expertise is related to the ability to understand how to undertake the governance role, understanding the difference between governance and management, possession of sound intellectual capacity, possession of people skills, and honesty.
- Board composition and appointments should reflect attention to an industry-relevant skill base.
- Appointments should be primarily based on merit.
- Gender should not be a key criterion for director selection.
- In New Zealand Crown Companies, CEOs are not involved in director selection. However, CEOs can informally assist in determining the best board composition. Their tendency to recommend people like themselves was, however, noted.
- Legislation must be observed. For Crown Company boards legislation is prescriptive, helps ensure consistency in governance operations, and is, in general, perceived positively by current directors and specialist commentators.
• Political factors impact on many governance issues but they are believed to be an inevitable feature of the New Zealand Crown Company board environment.
• Directors, in particular, would like less political influence on governance processes even though they are members of New Zealand Crown Company boards.
• Training is important for all directors and material should be available at all stages of a director’s participation in governance roles.

A more detailed exploration of the findings will be presented in the following chapter.
CHAPTER 5: DISCUSSION

5.1 Introduction

Chapter 5 explores the findings revealed by analysis of the interviews in Chapter 4, which presented the data from interviews with 23 Crown Company directors and 20 specialist commentators. It then relates those findings to the research questions, linking them to relevant governance literature detailed in Chapter 2. In drawing together the interview findings with the literature, and discussing the implications, Chapter 5 will directly address the research question and thus outline director perceptions of selection processes, board composition and director attributes related to New Zealand Crown Company boards. Associated questions that guided this undertaking are:

- What are the reasons for participation in governance activities?
- What qualities, skills and training are needed for effective board participation?
- What are the board selection procedures in New Zealand Crown Companies?
- What is the impact of diversity on New Zealand boards?

At the outset the chapter examines the demographics of participants in relation to the evidence about directors worldwide. The chapter then explores governance inclusion, a discussion that highlights the participation of women on boards and the related issues of gender and diversity. This is followed by comment on recruitment and appointment processes and the perceptions women have of their move into governance. Next the chapter examines responses to questions about the attributes needed to be an effective director and considers issues of board selection. Diversity issues, mainly as they relate to women, are underscored at various points throughout the chapter, but are particularly germane to the latter sections.

5.2 Demographics: New Zealand Directors and International Literature

5.2.1 Gender of Participants

The sample incorporated twenty specialist commentators of whom five (targeted because they were women) were directors from private companies. These participants were interviewed along with twenty-three Crown Company directors. Of the 23 Crown
directors, seven were female and 16 were male, roughly equivalent to the Crown Company director gender profile of 35% women. We know that women’s representation on New Zealand Crown Company boards, at a third, is higher than that for private companies, reflecting the drive sparked by then New Zealand Prime Minister Jenny Shipley for greater representation by females on Crown boards (McGregor, 2000). Recent statistics indicate that the representation of women on New Zealand private company boards remains low at around 5.7% (McGregor & Fountaine, 2008), consistent with international ranges of 2% to 10% (Burke & Vinnicombe, 2008).

Research such as the 2008 Korn/Ferry study of board of directors compared Australian and New Zealand figures, and showed that females represent 11.4% of directors in Australian Top 100 Companies. This figure is better than New Zealand’s, yet Ross-Smith and Bridge (2008) conclude that:

> despite some growth in non-executive director appointments in Australia in recent years, the percentage of women on corporate boards continues to be disappointingly small. (p. 76)

Any growth that exists probably reflects the fact that Australia, like New Zealand, has worked to increase the representation of females on public sector boards. Ross-Smith and Bridge (2008) report that:

> In an effort to broaden the pool of women qualified for board appointments and to move away from the traditional reliance on networks and interlocking directorates towards merit-based appointments, the Commonwealth Government and each of the State governments in Australia have set up registers for women who are interested in being considered for government boards. (p. 75)

In the United Kingdom, despite the Higgs Review (2003) and the Tyson Report (2003), which both made recommendations in relation to appointment processes and diversity of board membership, progress has been relatively slow (Sealy, Vinnicombe & Singh, 2008). Sealy et al. (2008) found that women hold 11% of the total FTSE 100 directorships on UK boards although they point out that “the number of non-executive directorships is at its highest level and it is here that women have made significant inroads” (p. 39).
Overall, taking into account New Zealand’s comparatively low level of female representation on private sector boards, and their considerably higher participation on public sector boards, New Zealand Crown Companies appear to be an attractive avenue for aspiring female directors. This observation is tempered, however, by the knowledge that there are fewer than 40 Crown Companies, so the number of vacancies at any one time will be small.

5.2.2 Age of Participants
Among the participants in this study, both groups of female directors were, on average, younger than their male colleagues. More than half of the female Crown directors were under 50 years old, compared to only a fifth of the males. From the total pool of directors, 70% of female Crown directors were under 55, 60% of female private directors were under 55, and only 30% of male Crown directors were under 55 years. Leighton (2000) put the average age of directors in Canada and the USA at 59 years, as did the Korn/Ferry International Study (2002) of directors in Australia. Given that most directors are male, the New Zealand male participants appear to reflect this broader international age demographic. Similarly, the age of women directors in this study is consistent with McGregor’s (2003) finding that two thirds of New Zealand Crown Company directors were under 50 years of age and only 31 of 118 male Crown directors were under 50 years of age. Two inferences may be drawn from these data: first, that the sample largely represents the broader age demographic of Crown directors; and second, the younger age of female crown directors may reflect selection processes. Indeed, McGregor (2003) established that:

from the demographic data provided about age from the profile of Crown Companies in New Zealand it is apparent that younger women are providing a new pool of talent for directorships. Proportionally more younger women than younger men are being appointed. (p. 374)

5.2.3 Educational Qualifications
Evidence from my study suggests that, to gain directorships in New Zealand organisations, women may have to be more educated than their male counterparts. Notably, all of the female directors in my research sample had formal/tertiary qualifications but not all of the males did. Hillman, Cannella and Harris (2002) have highlighted the importance of qualifications in the case of female directors, arguing that:
“Through education, women and racial minorities can publicly demonstrate expertise, tempering the effects of long-held stereotypes and biases that may limit their appeal to director selection committees” (p. 750). Indeed, in relation to board appointments in New Zealand, lack of experience and qualifications have been given as excuses for the non-appointment of females (McGregor, 2000). When considered in this context, the findings from my study suggest that education may not be merely a demonstration of expertise, but could, in some circumstances, be used to compensate for a ‘deficit’ in high level business/management experience – experience to which only a comparatively small proportion of women have access (Olsson & McGregor, 2004). My New Zealand Crown Company findings also reflect Maclean and Harvey’s (2008), observations regarding the appointment of women to French top 100 company corporate boards: those women not appointed through family connections were well qualified, most having attended elite educational institutions and holding higher degrees.

Taking into account the educational profiles of participants in this research, directors ranged from well qualified (with Masters degrees) to no formal educational qualifications. But all directors in my study indicated that their experience and qualifications had influenced their appointment to the board. In terms of the impact of qualifications, Vinnicombe and Singh’s (2003) United Kingdom study found that not having qualifications may have a negative influence on how those directors felt in their director roles. A similar finding was not apparent in my Zealand-based research; those without formal qualifications did not couch their roles and responsibilities in negative terms. Quite possibly their perspective on educational achievement and qualifications relates to the fact that those without tertiary education tended to be older, and therefore less likely to have had the same social expectations of participating in higher education.

5.3 Participation in Governance

5.3.1 Reasons for Becoming a Director

Clearly, individuals’ career trajectories will differ, although there is some evidence of similar paths into governance (e.g. Adams & Flynn, 2005; Fich, 2005; Ghaffari, 2007). My interview schedule incorporated a question relating to reasons for participation in governance activities, which was designed to gain a more nuanced understanding of what factors induce people to make the move. I also hoped to highlight any common
factors in responses, and to explore any differences which might relate to gender. There were three main factors identified by participants: interest in the role, involvement as a career extension, and being approached to undertake directorships.

The most frequent response, given by ten of the total 28 directors, was having an ‘interest’ in the role, on the surface, a fairly general expression that may cover a number of other related reasons, such as experiences in top management, personal life stages and a desire to engage in more strategic activities. Although this element stood out in this New Zealand research, it is notable that an intrinsic interest in the role is not something strongly apparent in overseas research into directors’ reasons for undertaking the role. Instead, reported research to date tends to emphasise payment (e.g. Conyon & Gregg, 1994; Liu & Taylor, 2008) and career progression (e.g. Daily, Jacobs & Dalton, 2004). The closest reference point for New Zealand directors’ claim to being motivated by interest in the role is the mention by Huse and Solberg (2006) of some board members reporting a sense of excitement in being a director.

Consistent with Daily et al.’s findings, nine of the New Zealand respondents identified board participation as a ‘career extension’. Career extension ranked a close second to interest, and was identified by a greater proportion of men than women (44% of the male Crown directors and only 29% of the female Crown directors, with none of the female private directors referring to involvement in governance being a career extension). For men, this career progression was described as a “natural” one, a descriptor notably absent from women’s accounts.

Involvement through ‘being approached’ was the third ranked reason for assuming the role of director, and was identified by eight people, spanning all participant groups. This reflects findings from the recent New Zealand study in which Harwarden and Stablein (2008) report that shoulder tapping is a frequent recruitment practice for board members.

While one cannot generalise, this study identified some interesting differences among women directors in the routes they took to the boardroom. Female Crown directors referred to their involvement being sparked by interest, whereas the female private directors referred to being approached to take on their director roles. It may be that
given the less centralised approach of the private sector to recruitment, and the absence of a deliberately inclusive database and drive to include women that is characteristic of the public sector, women are more reliant on being approached as an avenue for entering private sector directorships.

5.3.2 Acquiring a ‘Profile’ and the Appointment Process

Notably, when participants in this research described their personal pathway to directorships, a consistent theme was that, to be a serious candidate, they had to have established some level of ‘profile’ within governance circles. For Crown directors, this includes signaling their willingness to be involved in Crown Company directorships by registering their interest with CCMAU or being known to government ministers or government agencies. It is from this base that their short-listing for the directorship will have been generated. For Crown directors, being approached is the sequel to having signaled interest, having the appropriate skills for the board vacancy, and being acceptable to the shareholding minister. Private sector directors who participated in this study had similarly established some level of profile or reputation, but in the private sector there is not the same formality in terms of registering interest.

New Zealand Crown Company appointments are made in the following manner. When there is a vacancy on a board, skills profiling is undertaken by CCMAU to ensure an appropriately qualified candidate will be identified. After that, CCMAU advertises the director vacancy on its website, canvasses the shareholding ministers, other agencies such as the Ministry of Women’s Affairs, Te Puni Kokiri, Ministry of Pacific Island Affairs, Office of Ethnic Affairs, Office of Disability Issues, and checks its own database in order to identify potential appointees (CCMAU, Appointment Process, n.d.).

Unlike some overseas findings (e.g. Mctavish & Pyper, 2007), none of the participants in this research reported that they had become a director as a consequence of responding to an advertisement. This may reflect on the visibility and reach of public sector advertising channels as distinct from other CCMAU recruitment initiatives. More women than men in my study reported that they were approached for the Crown Company director role. But, CCMAU guidelines indicate that both women and men are routinely approached within the Crown sector to determine their willingness and availability to undertake a directorship of a Crown Company.
5.3.3 Personal Contacts and Shoulder-tapping

In my research study, participants talked about the impact of the old boys’ network in a range of contexts: it was the major similarity identified between the public and private sector selection processes and it emerged as one of the key political factors identified in the interviews, which sometimes indirectly referred to it, one participant commenting that it helped: “to be white, male, an accountant or a lawyer and a member of the Wellington Club”. Interestingly (and perhaps tellingly), no one explicitly drew on the term ‘old boys’ network’ in relation to the questions around how they came to take up their own positions on the board. Participants did, however, readily discuss shoulder-tapping, a practice that some researchers consider an extension of a male old boys’ network (e.g. McTavish & Pyper, 2007).

When discussing CEO involvement in director selection (section 5.5.4), however, participants were candid about the considerable influence of ‘old boys’ network’. Both men and women suggested that less of the ‘old boys’ network’ in director appointments would be advantageous to the members. The power of personal contacts was also raised in responses to questions about consultation with CEOs and the qualities, skills, attributes, experience and specialist knowledge required by directors. In commenting about appointments because of political ties and the ‘old boys’ network’, participants were noting that a board is formed comprising the same sorts of people, with similar ways of thinking, who move within the same circles – people working within their “comfort zones” (Jayne, 2007).

It became clear from the interviews in my study, that notification by personal contacts was not an exclusively male prerogative for New Zealand directors. Indeed, proportionally more women than men reported shoulder-tapping as part of their progression into governance roles. Thus, evidence from this research provides an interesting complement to Hawarden and Stablein’s (2008) finding that appointments to private company boards in New Zealand remain more in the domain of the ‘old boys’ network’: my findings suggest that women on Crown Company boards may either have their own power networks (Burgess & Tharenou, 2000), or that a small number of executive women are granted at least some access to informal male networks. Alternatively, this finding may be a consequence of the women in the study having
established a ‘profile’ over time within governance circles, resulting in being approached for directorships.

It is also worth noting that shoulder-tapping in the context of my findings does not carry the impression of cronyism implied by McTavish and Pyper. Rather, for Crown Company boards, shoulder tapping reflects officially sanctioned first steps in the recruitment process. In the Crown sector, CCMAU assesses the profiles of those who make themselves available for directorships to determine the skill match with the board vacancy, but then accepts the Minister’s preferred candidate. Following this decision, an approach is made to the potential appointee. This happens for men and women so, in this respect, all Crown directors are treated in the same way, and shoulder-tapped regardless of gender.

5.3.4 Management Experience

On the face of it, with regard to management experience, my findings suggest that the New Zealand experience may parallel elements of findings from this and other overseas studies (Adams & Flynn, 2005; Fich, 2005; Ghaffari, 2007), as all of the women and men directors interviewed for my study were experienced in business, and women also said their previous experience and qualifications had influenced their appointments to boards. Adams and Flynn’s (2005) study in Massachusetts found that line management experience differentials between males and females as a precursor to board appointments was “non-significant” (p. 841). Interestingly, too, they identified consulting and academic experience rather than CEO experience as alternative routes the boardroom for women. The findings from Adams and Flynn’s research are supported by my own findings, where five of the 12 female directors in my study made reference to being involved in consultancy work at the time of interview although this did not preclude management experience at an earlier stage. Unlike Adams and Flynn’s findings, none of the participants in my study referred to academia as a forerunner to their directorships.

Some questions permitted exploration of prior management experience and director qualities in the general and specialist (industry-specific) contexts. Participants generally supported the idea of both general business and specialist skills and qualities existing
simultaneously within a board to ensure the board had an appropriate mix of skills for the industry it was serving.

5.3.5 Director Remuneration and Economic Motivation

Although previous research and commentary has referred to board appointments holding attractive remuneration rates (Conyon & Gregg, 1994; Liu & Taylor, 2008), this was not necessarily the viewpoint of participants in this research study. At the end of an interview, a male Crown director said: “You haven’t asked about the money!” The remark prefaced his view that Crown Company directorships are not well remunerated for all the work that is required – and that money was certainly not a motivating force for his governance involvement. By contrast, a woman director described another female director who has accepted appointments, regardless of the workload, because she needed the money. This third party account may be considered a slight challenge to the claim that women are less economically motivated than men (Burgess & Tharenou, 2002). Indeed, since women generally earn less through work than men, we might surmise that their need for money from director roles might be strong, even at fairly advanced stages of their career.

At the time of the interviews, New Zealand Crown Company director remuneration ranged from approximately $24K to $55K. This level of remuneration for a board appointment might seem substantial to some, especially at a time when the gross average yearly income in New Zealand was $28,028 (Statistics NZ, Labour Market Overview, 2003). However, taking account of directors’ former senior professional, highly-paid occupational roles, one can assume that the financial implications of board membership can be considerable. Women moving into directorships can suffer loss of income, especially where they take leave from well paid professional practices (McGregor, 2000). Additionally, the apparent benefits of an attractive remuneration package may be countered by the sense of responsibility and liability imposed by legislation (such as the Companies Act, 1993).
5.4 Attributes of an Effective Director

5.4.1 Attributes Identified

CCMAU’s own documentation, at the time that interviews for this research took place, stated:

The directors of each [Crown Company] board are selected and appointed on the basis of the skills and capacity they have to satisfy the requirements of a director and the needs of a particular board. Identifying the skills required by each crown company board is therefore a critical part of the process. (2002, June, p. 18)

and that:

Preference is given to Director nominees with a mix of the following characteristics:

- have proven experience in significant organisations with a commercial focus have experience at chief executive or senior management level in organizations that have commercial attributes
- hold senior positions in relevant professional areas including, but not limited to, science, technology, finance, law health, agriculture or social policy
- have relevant governance or management experience in community or professional organizations. (2002, June, p. 19)

Thus, we should note that responses to the question: “What qualities do you think make a good director?” are likely to have been influenced by knowledge of that ‘official’ information, and the fact that this understanding affected the recruitment of my sample group. The question asked was an open one, which served as a benchmark for other related responses. Participants consistently noted that a significant contribution to the governance role related to the need for a range of key skills. The key skills most often mentioned were the ‘hard’ business skills of finance, accounting and legal expertise, and a general mix of these types of operating skills. After that, the focus was on personal characteristics and the ‘soft’ generic skills of honesty, intellect, commonsense, people skills and the ability to differentiate between governance and management roles, in that order.
The question asked of the participants that encouraged them to reflect directly on their own governance contributions and skills, again elicited responses that demonstrate an emphasis on business thinking, business experience and business skills: participants identified ‘a range of key skills’ as part of their own repertoires as well as ‘track record’, ‘intellect’, ‘strategic thinking’ and ‘the ability to distinguish between governance and management’.

Other related questions were broader in scope and allowed for consideration of different aspects of board composition. Again, participants were in accord as to the pre-eminence of general business knowledge and experience, balanced by industry specific knowledge. They also expressed the view that, for an effective governance operation, the composite board membership should be equipped with a set of qualities complementary to business skills (including intellect, honesty, passion for the role and people skills).

Ranking of skills and qualities by all participant categories across all of the questions within this theme suggests that New Zealand directors’ understanding of key skills, qualities and attributes is, in general terms, in concert with their Australian counterparts (Bay & Petit, 1998), and with findings from a range of other overseas studies (e.g. Burke, 1997a; Forbes & Milliken, 1999; Hilmer, 1988; Leighton, 2000; Leighton & Thain, 1997; Sheridan, 2002). Although the same sorts of business-oriented ‘range of skills’ were identified, those interviewed for my research placed particular emphasis on the need for finance and legal skills. The broad category of ‘a range of key skills’ was followed in my study by reference to intellect, honesty, fully understanding governance duties and its difference from management, strategic thinking, passion for the role, and people skills, consistent with Hilmer’s (1988, p. 62) reference to the need for intellectual ability, integrity and a mix of abilities for the board as a collective body.

Again, New Zealand directors and overseas directors seem in accord as to the importance of financial literacy and strategic thinking. Participants in my study spoke of business “experience”, suggesting that a mature understanding of business is necessary for board candidates, and this can only accrue late in one’s career (Leighton, 2000). References to experience and qualifications indicate that, over time, directors believed they had developed certain abilities that equipped them for involvement in
governance. Directors referred to their own “track record” as a prerequisite for board involvement, again implying a proven level of skill and established profile.

5.4.2 Overall Ranking of Attributes

One of the more revealing elements of analysis came from pooling participant responses to a set of questions tabulated within Tables 4 to 8. Table 9 groups responses under three broad themes: business attributes, personal characteristics, and honesty. When tables were combined, the list of attributes, qualities and skills identified was clearly dominated by business attributes. This might not be surprising, given the accountability requirements of board members under law. However, the fact that these business-oriented responses represented almost two thirds of the total responses elicited from the narrative data concerning attributes, qualities and skills, should be of concern. Several years before my study of New Zealand directors, Burke (1997a) had expressed surprise at a similar Australian finding, reporting that, among women directors: “several skills and abilities (leadership qualities, objectivity, diplomacy and tact, communication ability) and character traits (integrity, intelligence) were not seen as very important [to their director role]” (p. 123).

An aspect with regard to my own study of Crown Company directors and specialist commentators, is that values-oriented responses rated approximately 10% of total responses. In light of the increasing emphasis on ethics and ethical codes to guide business (Epstein, 1989; Myers, 2003; Wieland, 2005) and Schwartz, Dunfee and Kline’s (2005) comments about the foundational aspect of ethics within the realm of corporate governance, this is interesting. It must be noted that honesty was mentioned by well over half of the respondents the first time that they were asked to consider the qualities needed by directors (see Table 4). However, after that it rapidly became less significant in responses. Only one in ten responses from board members mentioned personal principles, despite the direct invitation to discuss ‘qualities’ and later ‘attributes’ required by directors. Further, honesty and integrity were the only moral values specifically mentioned: there was no reference to such values as fairness, inclusiveness, cultural sensitivity, and so forth. Adhering to the principle of qualitative interviewing (see below) interviewees were not given specific prompts. However, this observation is by no means to suggest that the board members are themselves unethical, or a lack a moral code. In fact, their early responses commenting on honesty and
integrity and then the drop off would suggest more that this value for them has a ‘taken for granted’ aspect that they assume that anyone attaining a governance position would be honest. The recent financial crisis both worldwide and within New Zealand demonstrates that this is a hollow assumption. Further, the interviews suggest that participants in this study, by privileging business experience over other attributes and qualities in their responses, appear to separate personal morality from business morality: a situation that implies that New Zealand board members may be taking refuge in De George’s “myth of amoral business” (De George, 1999) the belief that business is not immoral, but that business is ‘apart from’ individual morality. This omission is indicative of a possible shortcoming in our governance recruitment, selection and professional development processes, and, by inference, an area in need of attention in our business schools. As has been observed by business ethics commentators: “Many critics of business are trained in the rhetoric of ethics, but most business people are not” (Shaw, Barry & Sansbury, 2009, p. 39).

5.4.3 Comment on Methodology

One might speculate as to why the results of this study as to director qualities tend to reflect those of some researchers (Burke, 1997a; Huse & Solberg, 2006; McGregor, 2003; Stiles, 2001; Zelechowski & Bilimoria, 2003), yet differ from those of various surveys conducted by Coulson-Thomas (1990; 2009). In particular, Coulson-Thomas (2009) noted that survey-based studies conducted in 1991 and 2002 found, “certain terms such as awareness, judgment, common sense, vision, wisdom, honesty, tact and communication skills frequently recur” (p. 28). What my study has in common with those of other researchers (Burke, 1997a; Huse & Solberg, 2006; McGregor, 2003; Stiles, 2001; Zelechowski & Bilimoria, 2003) is the use of qualitative research methods to elicit responses. It is likely that, given words or phrases (such as tact, communication skills, honesty, integrity and sensitivity) as prompts, responses might have been rather different. This indicates a strength of the in-depth interview, where respondents use their own words and are not constrained by judgments imposed by the researcher. Unprompted responses, in an interview situation where rapport has been established and which encourages spontaneity, are ultimately more revealing of often unstated assumptions that underpin social behaviour (Bogdan & Bilken, 1992; King, 2004). In fact, mindful of Patton’s (2002) instructions never to supply or predetermine phrases and categories for respondents, I was particularly careful not to provide prompts.
However, the chance to revisit the question in a number of guises and from different perspectives adds to the strength of the findings. Additionally, the content analysis of responses, allowed for a quantitative dimension to make further assessment about the attitudes and perceptions of the respondents.

5.4.4 Understanding the Distinction between Management and Governance

In some cases, what is not said conveys the most telling insight. Analysis of the interviews shows that some participants referred to effective directors needing to be able to distinguish between governance and management. Indeed, this was a recurring theme in the interviews that first appeared when participants discussed whether their board experiences had been as they expected and was also the overall fourth ranked quality. Yet it was also notable for the absence of elucidation. Crown Company directors and specialist commentators spoke of such things as the need to “understand the difference between governance and management” or “understanding governance principles” without further explanation and as if the concept and boundaries of governance were not in any way contested or in doubt. In all, adding responses to questions 3, 4, 9 and 11, there were 30 comments relating to management versus governance, suggesting it is of considerable concern for New Zealand governance practice. Of further note is that participants in this research were cognisant of the possible conflict between governance and management roles. This view of what governance roles entail is addressed by the Institute of Directors (IoD) in their professional development courses (IoD, n.d.) and by CCMAU director training programmes. My research suggests that, while Crown Company directors and directors in the specialist commentator group have a sense that there is a difference between management and governance, and believe this difference to be important, directors may need greater clarification of that distinction.

5.5 Training and Development

Participants in my study were unanimous in their support for the idea of training to augment the skills individuals bring to the boardroom from their careers and/or life experiences. They referred to the particular need for governance training prior to, or at the beginning of, one’s first directorship as well as ongoing training to keep people aware of governance trends and current practice. Most participant directors were aware of the established training programmes available through governance entities/
associations such as the Commonwealth Association for Corporate Governance (CACG) and, in New Zealand, CCMAU and the Institute of Directors (IoD). These tend to focus on broad processes and business, financial and strategic competencies (e.g. Institute of Directors, Professional Development Programme, 2010).

5.5.1 Preparation for Board Membership
In line with Coulson-Thomas’ (1990) characterisation of the nature of governance ‘preparation’, my research showed that participants referred not only to the specific training initiatives that half of them had attended, but also referred to their qualifications and career experience as having been relevant preparation for their board appointments. All New Zealand Crown Company directors are offered training upon appointment and are expected to remain informed of current governance issues (CCMAU, n.d.).

In excess of half of the entire participant pool advocated training at induction or prior to appointment. Moreover, half of the respondents had engaged in some form of self preparation prior to entering governance. A frequent response (over a quarter of the director pool) to the question about personal efforts in preparation for governance roles, was to endorse the value of experience – particularly life experience combined with management experience. Over the years, living gives its own form of development that can be transferred to other areas of one’s life. When combined with knowledge acquired through a relevant career, a person is equipped with a repertoire of skills appropriate for a governance role. Of course, from the previous discussion, it is evident that it is work/career experience in business that holds most weight in this experience ‘package’. While some directors (more males than females) regard corporate work history and life experience as sufficient training for their next governance career phase, many proactively seek further training and development. The impact of CCMAU policy and communication may be part of the reason that almost half of the directors claimed to have independently pursued training opportunities, and indicates that formal development is regarded by many to be an important aspect of ensuring effective governance practice. The formal development most often described was the one - five day courses offered by both CCMAU and the IoD. Respondents did not refer to coaching or mentoring arrangements highlighted by Headlam-Wells, 2004; Jayne, 2004, Klaus, 1981; and Sweeney, 2007. While these arrangements are becoming more frequent and indeed successful (Jayne, 2004) in New Zealand as a way of increasing
effectiveness in other areas of business, they have not been formally established in the governance sphere. The enthusiasm for training among respondents and their mention of usefulness of informal and ‘on the job’ training, indicate that these approaches might be found useful and acceptable by directors, especially those new to the role.

Overall, the concept of training is acknowledged as important (by both directors and specialist commentators). However, there is no guarantee that directorships will follow that training, partly because of the limited number of vacancies within the relatively small New Zealand governance realm. As an established director, training provides currency in the contemporary governance arena but for an aspiring director, it may not be sufficient for entré into such positions.

5.6 Board Selection Procedures in New Zealand Crown Companies

Leighton and Thain (1993) claim that director selection is “one of the critical factors in determining how effectively a corporation is governed . . . the board should be ideal for the company at that point in history” (p. 25). Their comment suggests that the traditional board profile should change to meet the needs of the time. However, the barriers to change can be considerable. Individuals who do not fit the ‘norm’, who do aspire to be in governance roles, but who lack strong personal and professional networks, encounter particular barriers. McGregor noted that, at the end of a two-day governance training course, another woman participant contacted her and asked “What next?”

“What strategies should we use to get positions – it wasn’t good enough to tell us ‘it’s all about knowing the right people’. If you are going to have affirmative action in the form of free training you need to take the initiative further”. (2000, p. 138)

As mentioned earlier, even completing pre-appointment training does not necessarily translate into a board appointment – perhaps, nor should it. Further, McGregor (2000) points out that, while women may undertake training, there are still only the same numbers of boards to which they can be appointed and with the Crown appointing for three years, cycles for change take time (p. 138).
When participants reflected on the differences between public and private sector director selection, male Crown directors in particular drew attention to the more open and more rigorous process in the public sector. They also mentioned the emphasis selecting more women and first time directors, although this was not always seen as an advantage with one commenting: “the right mix of people, but not necessarily the people we need”. At the same time the interviewees recognised the limited number of places, and the extent of ‘cronyism’ in selection to both private and public sector boards.

With the research focusing on New Zealand Crown Companies, it was understood from the outset that there would exist an inevitable and strong link between the composition of New Zealand Crown Companies and the elected government of the day. Ultimately, Crown Company directors are appointed by government through the Appointments and Honours Committee. The board is always accountable to two government shareholding ministers, and the Crown Company Monitoring Advisory Unit (CCMAU) is linked into the structure, because it is CCMAU that makes the recommendations to government and then monitors the board.

5.6.1 Selection Processes and the Impact of Politics in the New Zealand Crown Company Sector

Three sets of questions in my interviews explored director selection processes in New Zealand Crown Companies. The first set focused on both selection processes and the impact of politics. The second set looked specifically at the Crown Company Monitoring Advisory Unit (CCMAU) and its role in selection and appointments, and the third set explored the influence of Chief Executive Officers (CEOs) in director selection.

There were six questions within this set: the first two explored director selection within the private and public sectors; three other questions explored politics and government because of the Crown Company focus of this research; the final question allowed participants to review director selection process and recommend changes if they considered some were needed.
CCMAU was often mentioned in responses, even when the question did not specifically refer to CCMAU. Participants acknowledged that the Crown Companies are managed by CCMAU but with political influence entering the process through the shareholding minister and Appointments and Honours Committee. In addition, even though CCMAU contributes to the appointments process by recommending possible director candidates, the Appointment and Honours Committee (consisting of government members of parliament) makes final decisions about board appointments. This means that the government of the day has considerable influence. Thus, it is possible that political affiliation might override the nominees’ other attributes in terms of skill base, diversity and industry knowledge that would make them suitable Crown Company appointees.

In the interviews, there was a consistent reference to political influences and a regular acceptance of this being an inevitable factor – even though a high proportion (12) of participants expressed a wish for less political influence. The impact of political influence was underlined by the director who referred to being part of a political process and not being above it. Statistically, females account for over a third of appointments to Crown Company boards (CCMAU, n.d.). This substantiates McGregor’s observation that Crown Companies are a better avenue into governance for women. Nevertheless, the 50% target which was the basis of (then) Prime Minister Jenny Shipley’s “radical experiment on the nation’s boardrooms” (McGregor, 2000, p. 129) is still a long way off.

When participants were asked about the changes they would like regarding director selection, a desire for less political influence was balanced by comments expressing a wish for more formal and transparent processes in how appointments are made. The two sets of responses overlapped. For instance, in relation to a desire for less politics, one participant referred to the need for less government interference and more competence focus. In relation to a need for more formal processes, another participant commented on the need for more formal processes and the skill needs of the board. Participants’ views hinted at both McGregor’s (2000, p. 134) comments regarding the “covert” nature of appointments to Crown Company boards, and Leighton and Thain’s (1993) call for more proactive, planned approaches to director selection (p. 25).
However, contrary to the previously mentioned set of responses, comments were made that claimed adequate transparency in the government appointment process, with participants suggesting that this was largely a consequence of the transparency provided through the CCMAU process: CCMAU documentation outlines how appointments are made and what candidates need to do to register their interest or availability. That said, we should not lose sight of the possibility that the directors in my study may hold the view that transparency is adequate precisely because they have fared well (become directors) under that system.

Participants in my study spoke of political influence in both positive and negative terms. Crown Company directors may be appointed because of their political ties (McGregor 2000) – an example of which was described during one of the interviews – and one would expect those incumbents to view the exercise of political power positively. But the interview data suggests that political affiliations may be less important than the required skill-set. For example, two male Crown directors made specific reference to their having served more than one government across the span of their Crown Company experience. Other participants pointed out that, while at times there are changes when new governments come in, it is customary for appointments to roll over until their maturity date. Regardless of when the new appointments are made, the CCMAU documentation states that the minister makes an appointment “based on the best-qualified person who is defined as the candidate whose skills and experience best meet the responsible Minister’s assessment of the skills profile for the vacancy” (CCMAU, 2002, June, p. 18). To what extent the minister’s assessment is objective can be at issue, and that offers leeway for political influence (McGregor, 2002) challenging claims to transparency. Exploration of political intervention within the ministerial prerogative was not a feature of my New Zealand study. However, the potential for government manipulation of board appointments is inherent in the current Crown Company selection process, and there has been recent criticism of political patronage within the Canadian system (Conacher, 2009).

Because of the confidentiality around deliberations of the Appointment and Honours Committee, there may be a sense that the transparency of any preceding processes is compromised. This is especially the case because the Appointment and Honours Committee is able to veto recommendations. Removing that veto power may help...
improve overall transparency and reduce political influence – but for a government controlled operation, that change is unlikely.

As a general observation, the selection processes for New Zealand Crown Companies is inevitably political. Those who wish to serve as directors of those companies must balance the political overlay with the requirement to return a profit to shareholders through good governance practice. Responses from participants in this research revealed an understanding of these composite factors in Crown Company board service.

5.6.2 CCMAU’s Involvement in Director Selection within the New Zealand Crown Company Sector

CCMAU was established in 1993 by the Labour government to oversee the Crown Companies and to recommend board appointments to government. Interviews included three questions on director selection which focused on interviewees’ perceptions of the role of CCMAU in the then current (2003-4) selection processes. The questions related to the identification and screening criteria for potential directors used by CCMAU; use made of CCMAU’s database in the participants’ own appointment process; how publicly available material on directorships was used when seeking appointment to the board.

What unfolded in the responses was that the majority of participants – both directors and specialist commentators – expressed awareness of CCMAU and its role in the Crown Company sector. There were two groups of responses with similar numbers. One group (14 participants) suggested the database was not used much and another group (ten participants) suggested that it was probably the best available and was used extensively. The tenor of the comments about CCMAU was generally positive or neutral, rather than critical.

The six comments that were negative about CCMAU related to political influence exercised after CCMAU had completed its selection and appointment processes, namely the formal recommendations going to the ministers. There is little publicly written about this process, but Steve Rich, the manager of Appointments and Governance at CCMAU suggests that a minister will typically be given more than one option for any board appointment:
It will be a process of looking at all the options, and a wide range of candidates for each role, before the Minister refines his/her final choice. They won’t always go with our recommendation, but there will always be a range of candidates considered. (Pers. Comm., August 27, 2009)

Participants’ consistent references to political influence recorded in Chapter 4, suggest that it is an element that cannot be ignored in New Zealand Crown Company director selection. Ministerial authority over appointments co-exists with espoused attention to merit and diversity, but the degree to which merit and diversity issues are genuinely influential over any board appointment is not apparent.

5.6.3 Key Legislation

Another aspect of the selection and overall New Zealand Crown Company procedures comes within the legislative realm, and one interview question explored participants’ knowledge of New Zealand company and Crown Company legislation. Responses indicated overall awareness of legal requirements presented in legislation relating to specific Crown Companies and the Companies Act (1993) that affects all companies in New Zealand.

Issues related to the legal environment include director appointments, the operation of the board, accountability and reporting channels – which have an added import for Crown Companies. Participants were aware that legislation will dictate how directors are appointed, how the boards should operate, and to whom they are accountable. As the participants were directors in New Zealand Crown Companies, accountability in this case is directed towards the New Zealand government, as it represents the shareholders (i.e. the New Zealand people). Further, as Crown directors have to arrange their own indemnity insurance, awareness of the legislation was to be expected.

During the interviews, participants made clear their understanding that regardless of legal parameters, it is likely that a degree of political flavour will impact on board appointments, an observation consistent with a report from the States Services Commission (SSC) that referred to director appointments and “Ministerial preference” (SSC, 1999, p. 7).
5.6.4 Chief Executive Officers’ (CEOs’) Influence in Director Selection in New Zealand Crown Companies

A third set of questions focused on the influence, if any, of Chief Executive Officers (CEOs) on director selection in New Zealand Crown Company boards. Despite their absence from Crown Company boards, questions on the topic of CEO influence were presented in the interview because membership by one or two from the management team is common on many company boards. In some private companies the CEO and the Board Chair is the same person, sometimes leading shortcomings that must be balanced against the knowledge the CEO brings. In essence, the impact of CEO involvement in various aspects of director selection has not been found to always be of benefit to the company (e.g. Fich & White, 2005; Gerety, Hoi & Robin, 2001; Shivadasani & Yermack, 1999).

Although the presence of the management team is not a formal feature of New Zealand Crown Company boards, CEOs were found to be influential players in terms of board composition and dynamics. While many participants in my study said CEOs were not involved in director selection there were more comments that acknowledged CEO involvement in, or influence on, director selection. Responses from participants revealed that, where there is CEO involvement, it is informal and can cover various areas including discussion about selection of new appointees. Forty-two percent of the interview pool referred to CEOs preferring appointees like themselves. This mirrors overseas findings which suggest that CEOs have some preference for people like themselves and who are demographically similar (e.g. Westphal & Zajac, 1995). So, despite this research focusing on Crown Companies which do not have CEO membership, it would appear that some behaviours operate regardless of the group structure, and New Zealand Crown Companies replicate behaviours seen in the private sector both in New Zealand and internationally.

That said, the informal CEO involvement discussed by participants may not reflect the extensive impact of CEO influence found in private companies in New Zealand and internationally (e.g. Gerety, Hoi & Robin, 2001; Shivadasani & Yermack, 1999) as the government Appointment and Honours Committee is likely to temper any undue influence.
5.6.5 Comment
In answering the research question relating to board selection procedures in New Zealand Crown Companies, it was clear that influence from both the CEO (through his/her personal and professional networks) and the incumbent government impact profoundly on the make-up of New Zealand Crown Company boards. There are procedures employed by CCMAU to assist with identifying suitable candidates for board vacancies but the final decision rests with the Appointments and Honours Committee. This is an accepted reality because of the activity relating to the Crown governance realm – even though some participants commented about a wish for less political influence. My findings suggest that McGregor (2000) may have been optimistic in her observation that: “The crown company process…has broadened the scope of recruitment and selection beyond antiquated and self-perpetuating notions of homosocial reproduction” (p. 142). In other words, the scope might be greater, but the informal and formal processes are likely to inhibit the selection of directors who fall outside of the traditional director profile.

5.7 The Impact of Diversity on Boards

A particular focus of this research was in relation to diversity and gender with the research question: What is the impact of diversity on boards?

5.7.1 Balancing Diversity and Merit
CCMAU, in its role of recommending possible candidates for board vacancies, is charged with reflecting “the government’s wish that Crown company board membership is representative of the demographic make-up of New Zealand” (CCMAU, 2002, p. 8). To this end, CCMAU operates through a range of formal channels to access suitable candidates. CCMAU’s recruitment efforts include targeted advertising of vacancies. They also work with relevant Ministers and government Ministeries (e.g. Te Puni Kokiri, Ministry of Women’s Affairs, and Ministry of Pacific Island Affairs), directors and director organizations, and community groups (CCMAU, 2002, p. 8). The need to consider diversity in board membership and director appointments is also promulgated through the State Sector Act 1988 and the Employment Equity Act 1990. Alongside the government and legislative drivers, CCMAU is also charged with
appointing “the person best-qualified to undertake the role of a director in that particular company” (CCMAU, 2002, p. 8).

With regard to the latter consideration, the value to contemporary companies of appointing the most talented people ‘on merit’ is a consistent theme in governance research (e.g. Burke, 1997a; Leighton, 2000). And, because they have to operate in a commercial environment and have to return a profit to the shareholders, namely the government on behalf of the New Zealand public, Crown Companies must attract directors capable of performing to a high level. But since diversity and representation are also goals, a “broadening of the merit principle” (Burton, 1991, p. 43) is inferred, and thus board diversity is an issue that board members of Crown Companies are likely to have consciously considered. Indeed, when asked whether diversity had impacted on the make-up or dynamics of New Zealand Crown Company boards, 23 participants gave yes responses.

Many (30) comments were made in support of diversity but five participants said that diversity should not exist “for the sake of it”, suggestive of a view that there are no compelling arguments for equitable representation of underrepresented groups. Indeed, a third of participants in this research readily found examples of experiences that supported a case against board diversity, presenting several illustrations of why diversity quotas might not be a good thing for boards. Interestingly, 13 male Crown directors (81%) and seven male specialist commentators (70%) said that they were supportive of board diversity, a finding that runs counter to the claim that men are more likely than women to prefer board homogeneity (Sheridan & Milgate, 2003).

5.7.2 Diversity and Women

In my study, respondents’ comments were evenly split on the question of whether or not female and male directors had different operating styles (1/3 same; 1/3 different) with a further third of participants arguing that women were both the same and different. This result reflects the range of findings across an array of other research (e.g. Adams & Ferreira, 2009; Bilimoria, 2000; Bradshaw & Wicks, 2000; Farrell & Hersch, 2005). While the finding is interesting, it is nevertheless unsurprising, in that it has been found that themes of difference and sameness seem to coexist in relation to women in organisations (Simpson & Lewis, 2007). Perhaps paradoxically, themes range from
women making claims to operating differently to their male counterparts in organisations (reports often drawing on gender stereotypical characterisations), through to denying the relevance of gender in women’s professional lives, “preferring a rhetoric of equal chance, hard work, and reward for effort” (Simpson & Lewis, 2007, p. 20). Actually, it has been suggested that denying difference or disadvantage can be one of the ways that women secure entry to established executive culture (Simpson & Lewis, 2007).

When asked whether more women directors will bring about change, respondents again referred to merit as the over-riding requirement for board appointment (18 such comments). This view might reflect the concerns highlighted by Farrell and Hersch’s United States (2005) study, where respondents were critical of the perceived practice of adding women to male-dominated corporate boards merely to satisfy outside pressure for greater diversity (p. 104).

Another 17 comments noted the benefit women’s skills can bring to effective board function. Some of these behaviours and contributions to board operations identified in my study were a narrow selection of those noted by Burgess and Tharenou (2002), whose analysis of the international research isolated a variety of outcomes related to women’s presence on boards. There was little evidence among participants in my study of an appreciation that diversity might bring benefits through improved decision processes; be valuable as a more representative reflection of society; or provide positive opportunities brought about through introducing new ideas and ways of doing things to the boardroom. This suggests that participants are not aware of the arguments that have been put forward as to the advantages of diversity; for instance in more closely reflecting contemporary society (e.g. Andringa & Engstrom, 1998; Bilimoria, 2000; Rutherford and Ollerearnsbaw, 2002); or in improving decision-making (e.g. Adams & Flynn, 2005; Carpenter & Westphal, 2001; Forbes & Miliken, 1999). Responses, moreover, suggest that the women directors in my study, like their overseas counterparts, “appeared to see themselves as being just like men; their gender was either down played or hidden behind a façade of high performance, strong commitment, and social similarity” (Bradshaw & Wicks, 2000, pp. 208-209).
Comments, on balance, characterised diversity as ‘good’ for vague political reasons: diversity was desirable so long as it did not compromise the board’s overall [business] skill-set and established notions of what appointment on merit might mean. The frequent comment that diversity should not be sought for its own sake or should not over-ride merit, showed little appreciation of Burton’s (1991) point that the concept of ‘merit’ can – and should – be broadened. As van der Walt et al. (2006) say, from the perspective of the New Zealand context, Burton argued for the strengths brought by “certain characteristics arising out of various experiences which might effectively be used to address issues” (p. 135).

We do have evidence that progress has been made in terms of women’s representation, yet the proposition that New Zealand Crown Company boards have 50 percent women directors by the year 2000 has proved vastly optimistic. In January 2008 women comprised 34 percent of Crown Company directors. Even with representation at one third of all Crown Company board appointments, when the effects of tokenism (Bilimoria, 2000; Farrell & Hersch, 2005) might be considered less likely, women directors may be subject to additional burdens to that of “being the only woman or one of a very small minority” (Bilimoria, 2000, p. 26). As the proportion of women to men increases, negative impacts and hostilities may intensify since they are then perceived to threaten the male dominated status quo (e.g. Bagilhole, 2002; Zimmer, 1988).

5.7.3 Diversity and Ethnicity

Although the government has set an explicit target for women’s representation on government boards, no such target exists for other underrepresented groups. My interview schedule sought to delve into this issue, and some questions required participants to reflect on ethnicity as a facet of the broader diversity theme. Sixty percent of the interview pool indicated some aspect of ethnicity had affected governance, but what was meant by this was not readily apparent. Within the total responses, the effect of ethnicity was described in both positive and negative terms with neither dominating the responses. It is relevant to remember that my sample was dominated by Crown Company directors who described themselves as European, European New Zealander, or Pākehā. Thus any non-Pākehā board member was bound to be vastly outnumbered and would inevitably be highly visible. In a similar vein to the responses my interviewees had given about diversity, while it was clear that
directors were aware appointments of Māori directors were encouraged, they did not allude to the Treaty of Waitangi or any obligations by the Crown, despite the importance placed by the Crown upon Treaty principles.

In the vignette about a male and female of the same ethnicity appointed to a board that resulted in the female deferring to the male (recounted in Section 4.10.1), two issues are notable. First, this director believed that her colleagues were present on the board primarily to satisfy diversity requirements. Second, the director appears to assess the situation from a very unitarist stance. In this situation, there were cultural issues, but some of the forces in play may have been those associated with pluralistic ignorance, which may not be recognised directly, but may nevertheless have a strong influence on how the board operates (Harvey, Novicevic, Buckley & Halbeselben, 2004; Westphal & Bednar, 2005). For example, a plausible explanation may be to suggest that cultural processes operated to ensure that the woman’s voice was in fact heard, albeit via the ‘mouthpiece’ of her male colleague.

However one chooses to interpret this vignette, what is most evident is the visibility of the main characters: two non-Pākehā directors. The reason for these directors standing out is that they embody difference. There are few non-Pākehā incumbents at executive levels in New Zealand business – business people simply do not expect to see people of Māori or other ethnicities (outside of the business ‘norm’) in managerial roles or on company boards. Evidence suggests that, to recruit and appoint for ethnicity can mean the need to recruit suitable candidates from non-business backgrounds. In New Zealand, relevant knowledge and experience can be gained from serving on community boards, and school boards of trustees, including Kohanga Reo. But it must be recognised that the ‘community’ background (Hillman, Cannella, Jr. & Harris, 2003) provides different (or diverse) perspectives that may not be accompanied with the range of key skills required for governance work. Put simply, community work is not ‘serious’ work in the way that business is. This may be a factor in some of the judgmental and negative comments associated with such appointments, an example of which is the reference to the requirement for a Māori director and the opinion that she would not be good. The skills argument and merit principle as they are currently interpreted are likely to work effectively to exclude minorities from full board participation.
5.7.4 Group Behaviours and Diversity

A key element of board diversity, highlighted in the literature review (Chapter 2) is its impact on board dynamics. Groupthink, ingratiation, homogeneity, heterogeneity, and pluralistic ignorance, can all be triggered by the diversity and/or similarity of the people. The role of the chair may be significant in managing the impact of these behaviours. Two participants in my study recounted examples of how they, as chair, were able to encourage an open and wide-ranging debate to effect a decision. Their recounting of the events indicated they perceived the process was “enabling” in that board members were encouraged to contribute all or any ideas so that the issue had a breadth of options. My research was not concerned with the group dynamics of the boards, which are being increasingly explored from the perspective of organisational behaviour theory (e.g. Daily et al. 2003; interviews conducted for the Higgs Review by Roberts, McNulty, & Stiles, 2005). However, these examples draw attention to the practicalities of leading the director ‘team’ and the greater skills required for leading more diverse teams in order to gain the potentials that diversity of perspective and insight can bring to board decision-making (e.g. van der Walt et al, 2006). These leadership skills go beyond the ‘hard’ business skills and competencies which received so much emphasis from participants in the research and encompass a number of ‘soft’ communication and other skills and attributes, which received much less comment.

In the course of the interviews carried out for this research, respondents did not indicate that there was any noteworthy dysfunction within their own boards, even though references to the ‘old boys’ network’ had been made in relation to director appointments. That said, responses indicated that the diversity on some boards was perceived in some cases as having functional impacts, and in others, dysfunctional impacts. These comments reflect the findings of Milliken and Martins (1996) who, in reviewing research on the board diversity, said it could bring benefits such as a greater breadth of perspective and more creative decisions, but that these ran alongside problems such as difficulties of integration and shorter term tenure for those who were different from their board peers.

A cautionary element to the diversity goals Crown Companies must observe in this country comes from New Zealand researchers Ingley and van der Walt’s (2003) observation that: “One of the most important and consistent findings of research on
diversity is that groups that are diverse gave lower levels of member satisfaction and higher rates of turnover than more homogenous groups” (p. 9). However, respondents in my study did not indicate dissension within their ranks because of diversity. In fact incidents described in the interviews suggest there can be advantages and disadvantages. Given the Crown Company diversity obligations, these aspects must be managed by the chair.

An illuminating perspective on the perception of skills and board diversity emerges from a comment by a male Crown director who, when told he had to have a female from an ethnic minority and had two to interview, advised the administration that he did not care which of the two were appointed as he did not think either of them had the skills required. As chair, he undertook to ensure that the new member attended training but believed that it was essentially the responsibility of the appointee to pursue appropriate training in order to address any skill deficit. This incident may also be an example of the double disadvantage that women from a non-dominant culture face (Singh, 2007).

In some respects, too, the incident described above serves to draw together the differing strands of governance, diversity and training. Respondents in my study maintained that, while diversity was on-balance a good thing, there needs to be appointment on merit to ensure capability in undertaking that role. This requirement excludes women and minorities, who simply do not yet have the representation at high levels in business, the accepted occupational prelude for directors. One challenge is how best to ensure diversity in order to better reflect society and broaden the board capability, while enhancing the skills and knowledge bases of individual board members who bring that diversity, without the commensurate business ‘apprenticeship’ and established networks. Perhaps trainers, themselves, need to understand the skills gained in a variety of community organisations and to learn how to help candidates to literally ‘translate’ these skills into the corporate discourse and more formal situations of the boardroom.

Overall, participants believe that diversity should not compromise the quality of the board in terms of skill base, expertise, the industry in which it operates and consequent ability to undertake effective governance. That said, 42% of respondents believed there are cases when the best person is not appointed to a board and 28% of the pool saw
political factors as one of the factors that influences the appointment of the ‘best’ person.

5.8 Conclusion

Participants provided a contemporary overview of New Zealand Crown Company governance as it existed in 2003/2004, and based on experiences in years prior to that. Examination of the research questions has been enhanced by the ability to draw not only on directors and board chairs from a wide range of Crown Companies, but also twenty specialist commentators who came from key Government ministries involved in board selection, from organisations representing directors, or involved in director training and recruitment, those involved in board oversight in public and private sectors, along with experienced women directors serving on boards from a range private companies.

Directors who were interviewed indicated their service was the result of their interest in this type of work and either a career extension or as a result of being approached. The Crown Company appointment process relies on people signaling their interest or availability to CCMAU, as well as shareholding ministers advising of potential appointees as a result of the individual’s political ties or profile. There were differences between males and females in their interpretations of their appointments, which were noted in this discussion.

Qualities and skills needed by directors for the governance role produced an extensive list, but the emphasis on business skills heavily outweighed the range of ‘soft’ relationship-oriented skills and there was limited mention of ethics and values, apart from an initial set of comments about honesty. Participants advocated formal training to develop and enhance ability – a focus that CCMAU also articulates for its appointees. Further, in contrast to the gloomy picture painted by British research, my participants showed an eager appetite for their own training both formal and informal.

Participants acknowledged the inevitability of a political overlay to appointments to Crown Company boards. While the selection and appointment process is constrained by legislation, there is considerable discretion in the hands of the government. Participants focused on the importance of appointment based on merit but recognised
this is still subject to ministerial influence. They supported board diversity as an advantage and ideal for board composition and the governance operation, but not at the expense of merit. In spite of the tight legislative constraints, however, evidence from this study suggests that informal processes may be as influential in Crown Company board appointments, as with private sector boards. Participants in this research indicate that there are some inherent issues in relation to the extent of political influence and consequent impact on attaining optimal governance structures.

Overall, the findings suggest that boards in the Crown Company sector subscribe to merit-based appointments, comply with various statutes, and attend to current governance and government themes of diversity. However, the issues of diversity and representation were somewhat negated by the strong emphasis placed on the need for merit-based appointments. The term ‘merit’ was often used by participants as if it were in inherent opposition to the concept of ‘diversity’. There seemed to be an unstated assumption that the two could rarely co-exist. When this is combined with a narrow business knowledge focus on the skills and attributes needed for director selection, and an absence of participant comments about broader positives of diversity as understood by theorists and researchers, there is some room for some concern about the future of diverse boards, especially in the current stringent economic climate. What is not said is often as powerful as what is stressed. Given the opportunity to reflect on the findings, this chapter has demonstrated the power of a qualitative approach to the subject area.

The ensuing chapter reflects on the contribution made by this research and proposes a number of policies for adoption by the Crown Company monitoring body, COMU. These policies focus on director attributes, widening the pool of potential appointees and ongoing training support mechanisms.
CHAPTER 6: BUILDING AND SUSTAINING EFFECTIVE [CROWN] COMPANY BOARDS

6.1 Introduction

Governance in organisations is a topical issue in New Zealand business circles and academia, yet there is still much to be learned. This study set out to answer the question: What are the major determinants of board selection, composition and attributes in New Zealand Crown Companies, from the perspectives of Crown Company directors and specialist commentators? Associated with this overarching question, were several sub-questions, each of which has been addressed in Chapters 4 and 5.

- What are the reasons for participation in governance activities?
- What qualities, skills and training are needed for effective board participation?
- What are the board selection procedures in New Zealand Crown Companies?
- What is the impact of diversity on boards?

In the process of my exploring these questions, a number of other relevant insights arose that are worth considering when working to enhance New Zealand’s board capability and performance in a competitive global economy.

Accordingly, this concluding chapter not only revisits the questions first posed in Chapter 1, but comments on the wider implications of my study’s findings. I present some frameworks for future practice and professional development and some ideas for policy change. In suggesting avenues for future research, I also take the opportunity to make observations about diversity and the construct of governance versus management.

Chapter 6 finishes with acknowledgement of the research limitations and a brief concluding comment.

6.2 Effective Crown Company Directors: What are the Determinants?

According to participants in this study, key determinants of board selection, composition and attributes in New Zealand Crown Companies, indeed for the board of
any New Zealand company, overwhelmingly stress business skills over interpersonal skills or values. These business skills include a track record in business, commensurate commercial skills such as financial literacy and strategy-making, and the professional acceptance/recognition that leads to informal recruitment. The underlying assumption that only through business or allied expertise can one achieve credibility as a potential board member, limits diversity by closing the boardroom doors to non-traditional sources of expertise and to gender as well as cultural diversity. Figure 1 provides a conceptual model of the current situation.

Figure 1: Pyramid of Key Director Attributes

6.2.1 A Pyramid of Director Attributes
The pyramid (Figure 1) demonstrates the emphasis given by participants to the skills and attributes for an effective director. At the apex are the personal value-driven attributes that emerged as less than 10% of the combined responses. As has been stressed earlier in the thesis, this result is in no way a reflection on the personal probity of my participants, and indeed the quality of honesty was a key response to my opening question on the qualities that make a good director. However, it reflects the findings of Kazi Alam (1999) who concluded a decade ago that New Zealand companies give low priority to ethics. To a broader extent, my findings also reflect the emphasis given to moral values and ethics in business in the competitive environment of market-led
economies, despite the growing literature on the importance of an ethical component in business and governance.

The central layer consists of the personal characteristics that represented about 30% of responses. These I have portrayed as social and interpersonal skills, all of which feed into effective group functioning, and are, arguably, essential for successful, collective board activity.

At the base or foundation of this pyramid are the business-specific skills, representing more than 60% of overall responses. These are highly valued, objective, ‘hard’ economic and legal skills learned through career experience and education. In my study the dominance of references to these factors was notable.

6.2.2 Is this the Correct Emphasis?
Questions arise as to whether these are the appropriate qualities, knowledge and skills for effective directors on Crown Company boards and, more particularly, whether they are given appropriate weighting. I have shown that both my own research and a large number of international studies appear to demonstrate that directors need all three kinds of attributes presented in the pyramid, to operate productively in governance. However, social access and acceptance within board structures is heavily reliant on the distinguishing characteristic of business profile, track record and an assured grasp of the corporate and business discourse.

Notwithstanding the findings of my research, and looking to the future, it would appear important to reconceptualise the pyramid model and replace it with one more suited to a complex world requiring innovative responses to challenging and fluid circumstances. This model places ethical and value awareness at the centre of a flexible and sustainable governance entity (Figure 2). The model can also be seen as providing a visual counterpart to the recommendation by Schwartz et al. (2005), that “Corporate governance should not longer be considered distinct from ethics, but instead be seen as built on an ethical foundation” (p. 96).
Figure 2: Sphere of Ethical Governance

The proposed sphere of ethical governance does not reject the director attributes identified by experienced and knowledgeable practitioners in my study, but proposes a realignment of priorities. By placing morality at the centre, business skills are no longer privileged over social and moral imperatives in our thinking and discourse. Rather, moral responsibility, relating to personal ethical values (including the quality of honesty mentioned by most participants), becomes the core around which other attributes coalesce.

This is by no means a ‘soft’ response to a ‘hard’ business problem. It is made in the knowledge that the current government is reinforcing the financial emphasis of Crown companies by its recent formation of COMU (Crown Ownership Monitoring Unit, established November 23, 2009) which re-aligns the former CCMAU with the appointments, governance and ownership monitoring functions of Treasury (as noted in Chapter 1). COMU’s website (http://www.comu.govt.nz) states it is: “focused on improving the performance of the entities it directly monitors, supporting other monitoring agencies, and contributing to better balance sheet management across the Crown’s portfolio”.
This move seems somewhat incongruous given that it is becoming clear that the practices of ‘business as usual’ may not solve economic problems. The current parlous state of the global economy is largely the long term result of placing business and profit goals above moral and ethical concerns, while attempts to solve the unfolding climate change predicament, by working through such mechanisms as the enlightened self interest operational in the market, are foundering. Governance entities, and the organisations they serve, need to become more sustainable (in the broader sense of the word) as well as more flexible and this may well require a different set of priorities – one that is more responsive to people as citizens in a globally linked world, rather than just as owners, consumers and stakeholders. This value-centric approach is embraced by commentators such as Epstein (1989), Potts & Matuszewski (2004) and Wieland (2005) as well as a number of those who recognise the importance of board diversity.

6.3 Recruitment to Crown Company Boards

In adopting a long term perspective toward sustainable, successful Crown Company and business boards, it is imperative that capacity is built now for later effect. Yet evidence from the study suggests that, without conscious and deliberate policy intervention, the current board profile, and thus outmoded beliefs and practices, will be perpetuated into the future.

6.3.1 Diversity: Sameness or Difference?

Whilst diversity was not the main emphasis of this study, it was highly relevant to any investigation of Crown Company boards, as gender equity has been a consideration and putative goal since Jenny Shipley’s time.

My research indicates a somewhat limited acceptance among board members of the notion of diversity as a goal, reflected in repetition of terms such as ‘diversity for the sake of it’. Further, and perhaps related to this, interviews revealed a relatively simplistic understanding of what diversity is and little evidence that participants were aware of any of the potential benefits that theorists and scholars claim that it can bring to boards. The interviews were more inclined to show the stresses that can arise when a ‘different’ member joins a group.
6.3.2 Diversity through Gender Diversity

Policy change in the past led to an increase in the number of women recruited to New Zealand Crown Company boards, but for ten years the proportion has not increased. The inclusion of women has, by and large, been restricted to a narrow range of ‘business’ qualified women who, in terms of career trajectory, look rather like their male counterparts. In brief, the current status quo appears to be a fairly superficial concession to diversity requirements. Both women and men board members are recruited from a comparatively small group of the business elite, a situation that is likely to result in board introspection and complacency. The fact that a decade after Shipley’s target date for 50:50 government board representation women make up only one third of directors, suggests that the will is lacking to widen the search and to create strategies to ensure that broadening the intake leads to positive not negative outcomes for both boards and individual candidates alike.

6.3.3 Diversity through Cultural Diversity

Another key source of diversity comes through the inclusion of people whose heritage differs from that of the majority because of racial, ethnic or cultural characteristics. As a reflection of their special status, New Zealand’s indigenous Māori are fairly strongly represented on Crown Company boards. Nevertheless, this representation at 12.5 percent, is less than population numbers would indicate and certainly below the aspirations of partnership nurtured by the Treaty of Waitangi. Representation of other ethnic minorities on Crown Company boards – at two percent for Pacific people and 2.5 percent for other ethnicities, a total of ten people out of 220 – can only be described as dismal, when one looks at the rich array of cultures making up our country.

Straight arguments of equity aside, cultural diversity on boards must give those boards a greater understanding of the society in which companies operate and bring new perspectives into the decision-making process. The challenge lies in not seeking recruits who, while of a minority ethnicity, actually merely replicate the same skills and experiences already present on the board. It must also be recognised that seeking out truly diverse board members may well impose further requirements for training of both the candidate and the chair, whose contribution is key to encouraging participation from all board members.
6.3.4 Recognising Governance is Collective Effort

In common with other boards, boards of Crown Companies are groups within which a range of attributes can be combined for greater effect. Currently, however, the pool from which directors are drawn appears to be limited by personal and professional networks. Thus the boards have run a significant risk of becoming ‘comfortable’ arenas where members of the same club can work together, but where they find little to challenge their approach to the governance task, and where they may miss both threats and opportunities in their operating environments.

6.3.5 Shoulder-tapping: A Diversity Opportunity

One unanticipated finding of my study was the acceptance and apparent endorsement of practices that might be mistaken for cronyism. There is apparently no stigma attached to patronage, and personal recruitment through social and professional networks. My study showed that shoulder-tapping is not only present, but legitimised in the CCMAU recruitment process, which is likely to be little changed in the new COMU. The acceptance of this process is perhaps less surprising, when one considers that the participants were themselves ‘chosen’. The small New Zealand population, the even smaller array of boards, and the practice of recruiting experienced directors who then serve concurrently on several boards, also make shoulder-tapping an apparently natural occurrence.

This does, though, suggest an opportunity for intervention that might increase board diversity. As previously mentioned, existing international research and my own study show that directors themselves privilege hard business skills over interpersonal skills or value-based attributes as essential for the governance role. Further, my study suggests that, while women and minority groups rely on the meritocracy of education for an entrée into governance and traditionally male domains, this is not enough to ensure full representation and acceptance in senior business roles. Thus, if there is to be overt commitment to a kind of diversity that does not perpetuate the established practices and norms, then there must be an effort made to identify and nurture (in effect to shoulder-tap) a range of board prospects from a genuinely diverse set of backgrounds and experience.
6.3.6 Transparency in Recruitment

Interviewees generally thought that recruitment for Crown Companies was more transparent than for companies in the private sector. However, the role of the Minister in approving appointees makes the recruitment processes ultimately a political one. Most participants mentioned in broad terms the impact of political influences, although the role of political allegiance of directors was not directly referred to. Participants generally accepted political processes as inevitable.

This leaves open the question of whether transparency can be improved in the Crown recruitment process. Unlike the United States, New Zealand does not practice a system where large numbers of appointments are clearly tied to the current government and change with changes in the administration. Ostensibly, political loyalties and ideological leanings are deemed not to be relevant to the recruitment process. Some people who would not put their names forward, nor be approached under one government, may be quickly sought under another. However, a new government in this country typically retains appointments, only pushing for resignations under exceptional circumstances.

Governance service in government sectors is not for everyone. Remuneration is not as generous as in some private companies and the task is complicated by the sometimes conflicting roles of Crown Companies as at once business entities, guardians of a wider public purse and providers of public goods. Thought needs to be given to the fact that potential directors might not be aware of the complex role of Crown Companies, or the nature of political influence.

In terms of the political nature of appointments and the job of the Crown Company director, perhaps the best that can be done is more frank disclosure about what is looked for in potential candidates, and greater openness about current board members and their interests.

In terms of widening recruitment, more aggressive promotion of opportunities through appropriate advertising of vacancies could be advisable.
6.3.7 Overcoming the Barriers to Diversity: The Role of the Chair

A benefit of diversity is that it will bring more creativity through different perspectives and different life experiences resulting in more effective decision making in governance. Yet, while studies do suggest there are better outcomes from more diverse groups, they also show that this is not automatic. If negative outcomes are to be avoided, diversity requires effort beyond merely appointing someone of a different culture or gender – diversity must be managed. It requires experienced leadership and hard work on the part of all concerned. Established membership can feel frustrated and impeded, and the newcomers marginalised and excluded.

The role of the chairperson is crucial. Meetings must be chaired for inclusivity requiring the leadership to have skills in facilitating difference. Useful skills may not always be related to orthodox business or political knowledge. An effective chair, who can help a member usefully draw on experience from community organisations, management of trusts and so on, will not only enable the participant to add usefully to the wisdom of the collective, but make the board experience a rewarding one for him or her.

Studies show that those who feel themselves to be the odd one out in a board setting, are likely to leave after a short time. If the candidate has been carefully selected to fulfill some board need, this is wasteful. Further, in a small society such as New Zealand, the dissatisfaction of the board member is likely to become known to others. Thus the pool of potential candidates of, for example, the same ethnicity, narrows. This fragility sets a premium on chairs who can create a welcoming environment for those who do not have standard pre-requisites.

6.4 Training and Capacity Building

Reflections on recruitment lead naturally to the need for training of potential directors, current directors and chairs. My study provides evidence of the appetite among participants for training and personal and professional development opportunities. There is an array of current training provision ranging from broad academic education in finance, business and management knowledge, through to the focused courses for
directors at a variety of levels offered by the Institute of Directors and other training organisations.

Probably unsurprisingly, current training programmes for directors seem to reflect the beliefs expressed by participants in this study that technical business skills and process are the dominant selection criteria and the secret to success for board members. In addition to this training programme, findings from my study suggest benefit could be gained by supplementing the current targeted director training programmes. A more comprehensive and balanced programme would situate ethics and values more centrally in the curriculum.

*Training for present ‘business qualified’ incumbents* training for diversity; business ethics; moral values; and interpersonal skills.

*Training for new recruits from non-traditional sources/backgrounds* as above, but also formal training in relevant business/legal skills and knowledge.

*Training for those in or entering Chairperson roles* training emphasising values and the challenges of diversity; managing/facilitating diverse boards; encouraging inclusivity and learning.

This enhanced training programme would see director training as a process that values business skills, but also one where personal moral and professional development go hand in hand with refining individuals’ commercial acumen. Director training becomes a cycle that acknowledges the people as central to board efficacy and continuous development, as seen in Figure 3.
6.5 Policy and Practice: Building Representative/Inclusive Boards

Crown Company boards perhaps offer a unique opportunity to target recruitment within a framework of equitable opportunity and genuine support for new directors. The influence of government on the recruitment process is powerful and direct, and this is one stage at which intervention may be possible. However, ministerial influence is also one of the least transparent aspects of the director recruitment process. Thus, the most influential policy intervention is likely to be a change to policy and practice within the body that oversees board recruitment and monitors performance.

Above I have reported that the current New Zealand government’s reason for redefining monitoring CCMAU as COMU is to “[contribute] to better balance sheet management across the Crown’s portfolio”. Yet, ironically, my findings implicitly challenge the wisdom of this move. Evidence suggests that there may be greater long term benefit from moving the emphasis of board membership and skills away from the narrow set of backgrounds currently highlighted. Rather, government should authentically strive to enhance the diversity of Crown Company board membership through emphasising diverse experiences and backgrounds.

This smooth transition from executive status to governance is a fairly straightforward progression for individuals who share a common background with members of the
established board. However it has inherent barriers to inclusion of other keen, capable and potentially valuable individuals. It should be remembered that Crown Company and other boards are made up of multiple members, and the governance structure, if primarily made of directors who do have key commercial skills and knowledge, can accommodate some difference and even areas of apparent weakness in individuals without sacrificing overall performance quality. In turn, these individuals can develop the business knowledge and skills base necessary.

Thus I propose that there is an opportunity to emphasise diversity, capacity-building and long-term sustainability without sacrificing short term effectiveness. There seems little dispute that boards are groups that can and should encompass a range of skills and attributes. Yet the current emphasis seems to be on a model, whereby like-minded individuals have already been informally prepared in the course of their previous commercial roles. Training is currently fairly narrow in scope and formal governance preparation is limited.

Clearly there is an opportunity to reach to the broader population and actively recruit candidates with proven leadership capability and potential from a range of non-traditional communities. Any initiative would include revision of the recruitment literature and communication channels to promote diversity. I wish, however, to propose a further refinement that is aimed at not just recruiting board members outside the typical governance profile. This is a graduated, incremental introduction for new board members, which I characterise as a Director Internship (see Figure 4: the Proposed Development Process for Directors from Non-Traditional sources). In line with findings by Jayne (2004), Klaus (1981), Sweeney (2007) and others, this approach aims to ensure socialisation, knowledge acquisition and a secure and managed induction, without foregoing the unique contribution made by directors who do not fit the customary career profile of a Crown Company director. I have called this approach a Director Internship and suggest this would be supported by a mentoring scheme.

Ideally, director internships would be applied to the first year of director service for new appointees who do not have previous governance experience. The internship would be effected through a formal mentoring arrangement, preferably linked to the frequency of board meetings, but with flexibility for more frequent contact should the mentee require
The mentor could be either an experienced director willing to undertake the role or a professional mentor, trained in mentoring skills. Mentor / mentee compatibility - a key element of the relationship - needs to be established at the outset in order for the initiative to succeed.

6.5.1 Policy Recommendations for COMU

- Review the current emphasis on recruitment of candidates for commercial skills and business track record through the inclusion of a separate recruitment category that actively encourages candidates from non-traditional sources/communities.
- Establish a supported Director Internship scheme, whereby unproven or inexperienced candidates from non-traditional career and cultural backgrounds, are encouraged to apply for recruitment to Crown Company boards. Such a mechanism will provide a supportive environment, build capacity within communities, and demonstrate government commitment to diversity.
- Work with the Institute of Directors or similar to provide targeted training and ongoing mentoring support throughout the internship.

Figure 4: Proposed Development Process for Directors from Non-Traditional Sources

![Diagram showing the process from Recruitment, Mentored Internship, to Full Board Membership]

6.5.2 Comment

In previous chapters I have reported on and analysed the responses of my sample of Crown Company Directors and specialist commentators. That has given a detailed and sometimes complex picture of what, individually and as a group, participants perceive to be the major determinants of board selection, composition and attributes in New Zealand Crown Companies.
In this chapter I have built on the understandings gained through analysis, to propose some models/frameworks that represent current board level attributes. The first is the Pyramid of Key Governance Attributes (Figure 1). I reconceptualised this pyramid as the Sphere of Ethical Governance (Figure 2) to provide a focus on personal and business ethics. Complementing and providing a framework for developing this emphasis on moral development and accountability is the Director Training Cycle (Figure 3).

Considering the practical and policy implications of building capacity for future sustainability and long term effectiveness of Crown Company boards, presents some particular challenges. I have proposed that board diversity is one of the keys to long term success. To provide a way forward I have suggested a Director Internship whereby novice directors from outside the customary pool of commercial/business elite (who are typically male and Pākehā) can be inducted into board activities via a supportive programme of education and mentoring. This approach should be compatible with business people’s experience, as business has traditionally incorporated apprenticeships and internships into its ‘normal’ activities. It seems logical that, at this highest level of business, every care should be taken to attract the best directors, and ensure board level competence.

Thus, emerging from the current study of New Zealand Crown Company boards are some conceptual models, suggestions for policy development, and practical ideas for ways to build capacity in governance. The ensuing section goes further to draw together suggestions for future research. This is followed by an acknowledgement of some of some of the possible shortcomings and limitations of my study.

### 6.6 Research Opportunities Highlighted in this Study

#### 6.6.1 Diversity Gap: Achieving and Sustaining Board Diversity

Local research into ways of enhancing gender and cultural diversity on New Zealand boards is overdue. Recent and prospective major demographic changes in New Zealand have not yet impacted on the membership profile of boards, and little seems to be in place for building capacity among non-traditional populations for future board, and thereby business, effectiveness.
Interesting avenues for investigation have been hinted at in Chapters 4 and 5. However, it is evident from the dearth of scholarly writing on the topic that board diversity is, internationally, under-researched. The findings from my research suggest that New Zealand Crown Company directors have only a partial appreciation of the potential value of diversity, or the processes that might have to be instituted to capitalise on the untapped benefits. Even though gender diversity has been emphasised in recruitment for two decades, gender equity has not been achieved.

In particular, it is evident that ethnic diversity is an important lacuna in the body of research pertaining to diversity in governance. The interviews held hints that this issue is both relevant and important in building better boards.

In short, questions must be answered as to why women and ethnic minorities are not well represented on New Zealand boards, and why Māori, as the indigenous population, are not better represented. Further, ways must be found to ensure boards are inclusive entities equipped with the skills to productively incorporate a wider set of experiences and expertise. More, targeted research is needed.

6.6.2 Exploring the Governance Mystique

Finally, evidence from this study suggests that some incumbent directors, and the public at large, may need greater clarification of the distinction between governance and management. Participants in this study referred to the need for directors to be clear as to the difference, yet their own failure to elaborate, despite the opportunity to do so, suggests that some experienced directors may not be clear as to where governance and management diverge. Perhaps this reflects an inability to articulate elements that familiarity has made clear to them as experienced directors; or, simply, the boundaries are fuzzy. I suspect, however, that it may also hold elements of ‘something else’ – a reference to ‘in’ and ‘out’ groups. In their references to this knowledge as an attribute of a good director, participants hint at exclusivity – a sense that this knowledge is somehow only available to a privileged set. In other words, governance has about it an aura of heightened value that helps elevate its status above mere ‘management’. An opportunity exists to conduct in-depth research into understandings of the relationship between governance and management.
6.7 Reflections on the Research Design

As signaled in Chapter 3, when assessing the value of the current research, methodological choices made will inevitably be the subject of scrutiny. I acknowledge below some limitations of the method employed in this research. Here I demonstrate that shortcomings are outweighed by the benefits of opting for in-depth interview data subjected to analysis that was labour intensive and time consuming, allowing for nuanced and meaning-rich interpretation.

6.7.1 Sample Size and Calibre of Participants
I was fortunate to gain the participation of a large representation of New Zealand Crown Company board members, and had the opportunity to interview them in some depth. The specialist commentators, many of whom are highly regarded within New Zealand governance circles, were included in order to provide an informed alternative commentary on governance from an ‘external’ viewpoint. However, it is important to acknowledge that the study results suggest that successful socialisation and close professional networks of these two sets of respondents may have restricted responses. Thus, claims that specialist commentators are genuinely independent from the Crown Company directors must be muted. Further, while the lack of diversity in the interview pool reflected the diversity of Crown Company directors as a whole, it did not allow me to hear much from the perspective of those directors who could speak from different cultural and ethnic perspectives. While gaining these perspectives was not the purpose of my study, it is a limitation for a study that hopes to uncover more about diversity – it also points the way to further research.

6.7.2 Interviews
Semi-structured interviews enabled me a flexible, responsive mode of discovery not available in strictly confined structured approaches. In particular, the semi-structured approach had the advantage of being able to comprehensively cover the topics/questions-set in conversation, without being rigidly constrained by the order of items. Additionally, I was able to probe and delve into emergent items of interest. Participants shared their experiences, insights and opinions, and enabled me to glimpse the complexity of the governance role.
Northeast, in choosing to capitalise on the strengths of interviews, and eschewing the use of now popular software packages for scientific analysis of textual data, I may have left myself open to allegations of subjectivity over objectivity, and claims of ‘loose’ interpretation of content. Both of these are fair charges, yet judgments made as to how to interpret data are inevitably ultimately subjective, and the advantage gained by engaging directly with the interviews were manifold. Further, my aim in Chapter 4 has been to clearly explain the underlying categories as devised from the interview data (especially with the inclusion of illustrative quotations). This makes transparent the basis of my judgments, even though these judgments may be disputed.

6.7.3 Bias
Similarly, the intimacy of face-to-face interviews invites a degree of social desirability bias and it is likely that some such distortions may have occurred. Common reasons for such bias (highly personal or socially taboo subjects) were not part of my study. However, particularly with respect to the diversity questions, the fact that I was a Pākehā woman may have influenced responses. It should be noted that board members interviewed were not vulnerable participants, but in fact chosen because they were knowledgeable and experienced directors, and the nature of the question schedule meant that participants were unlikely to feel embarrassed or inadequate.

6.7.4 Timing
Some time has passed since the data were gathered. The interviews, conducted in 2003-2004 were essentially a snapshot of a particular time of relative prosperity and growth. Since then, there has been a decline in business confidence and a questioning of practices. While the postponement of analysis may have risked losing something in terms of immediacy, this delay has provided an opportunity; it is particularly timely to reflect upon an orthodoxy that may not be well suited to withstand the rigors of time and changed circumstance. It may be that years of growth led to a form of complacency and lack of questioning of established practices. With the benefit of hindsight, one can argue that those practices and beliefs espoused by these participant directors, which reflect practices observed in overseas research, have not worked to the advantage of the companies. Given the changed business circumstances, maybe governance practices need to change. The rhetoric that is evident in my study suggests the will is there for development and change, but the reality is one of sameness and continuity.
6.7.5 Generalisability

Any New Zealand study will appear restricted in terms of claims to universality (which are, anyway, highly suspect). This study is, in a sense, further narrowed by its primary focus on New Zealand Crown Company boards – boards that are subject to considerable domestic political influence. In short, I chose to sacrifice research breadth for depth and specialisation. However, as has already become apparent, the findings from this study in many ways reflect those found in the international governance literature. Additionally, the business environment in which these Crown Company directors are engaged is a global one. In summary, whilst the findings cannot be generalised beyond New Zealand, useful comparisons can be made with the existing scholarship. The concentration on a particular governance ‘subset’ and the choice to scrutinise it closely, provides for a potent insight into Crown Company boards not previously available.

6.8 Concluding Remarks

Business has always thrived when it is in tune with its environment. These challenging times of global uncertainty, financial crisis, and changing societal and business values may require Crown Company and private sector business boards to conceive and adopt new practices – creative responses that increase adaptability, flexibility, and competitive capability. It is an interesting time then at which to proffer a contribution to the conversation about governance and board selection, since good governance is one means of influencing future organisational and national efficacy.

Through the eyes of experienced New Zealand Crown Company directors, and directors from private sector boards, this research has provided insights into current policy and practice, and proposed ideas for future policy, practice and professional development. Crown Companies – established, credible commercial arms of government, which share board members with many private sector businesses – may be ideal settings in which to initiate a different governance profile and set of practices. These practices will aim to enhance board ethicality, representativeness, and overall effectiveness, while contributing to vibrant, sustainable Crown and private sector business entities.
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APPENDIX 1

NZ Crown Company Boards: Director Perceptions of Selection Processes, Board Composition and Director Attributes

Interview Outline

- Ask participants to please fill out the data sheet – or fill it in with them.
- Complete Consent Form.
- Start the taped interview.

1. What made you want to be a director / or / involved in governance?
2. Is it as you imagined? Please elaborate.
3. What qualities do you think make a good director?
4. What do you see as the special qualities you bring to your role in governance?
5. Please describe the way you believe directors are selected in the public sector in New Zealand? What are the advantages and disadvantages of this process?
6. Do you see similarities or differences between public and private sector director selection?
7. How are CEOs involved in director selection?
8. What, if anything, have you noticed about people CEOs recommend for board positions? Why do you think CEOs choose these people?
9. In terms of board composition, what attributes, qualities or skills have you observed are common in directors?
10. In your view, what are the key criteria for director selection? Please elaborate.
11. What sort of specialist knowledge, if any, do you think directors should have? Why? Please elaborate.
12. Should directors have training for their role and if so, at what stage/s?
13. What is the contribution of independent directors on the overall effectiveness of the board?
14. What ratio of executive to non-executive directors would you recommend for the ideal board? Why?
15. What do you think is the ideal size of a Board?
16. Has attention to issues of diversity impacted on the make-up of your board and/or the board dynamics? Please elaborate.
17 Do you think men and women directors on boards are essentially similar or essentially different? Please elaborate.

18 Do you think more women on boards will bring about change? In what ways?

19 When Jenny Shipley was Prime Minister she set a target of 50% women directors on public sector boards? Do you see advantages or disadvantages of setting such targets?

20 How does current legislation in New Zealand, particularly the Companies Act 1993, contribute to governance in New Zealand?

21 How do you perceive the identification and screening criteria for potential directors used by CCMAU?

22 How did you find the publicly available material on directorships when you were seeking appointment to the board? Which specific material did you use?

23 What is the contribution of the shareholding Minister in the appointment process?

24 When there is a change in government, have you noticed any differences in how the director appointment processes work and if so, what are they?

25 What, if any, changes would you make to the way in which directors are selected in New Zealand?

26 What do you consider to be the use made of CCMAU’s database in the appointment process?

27 Diversity has been defined as a “broadening of the merit principle rather than an argument for representation” (Burton, 1991, p. 43). Do you relate diversity and merit or see any connection between the two?

28 Can you describe an incident when ethnicity affected governance?

29 Do you perceive that there are any or many cases where the ‘best person’ is not appointed? Please elaborate.

30 What are your views about the transparency of the government appointment process?

31 Can you tell me a story that stands out for you about your experience as a director?

32 What advice would you offer to people who wish to be directors?

33 What efforts did you make to prepare yourself for director candidacies?

34 Do you have any questions you would like to ask me?

*May I telephone you if I have any points to clarify?*
APPENDIX 2

NZ Crown Company Boards: Director Perceptions of Selection Processes, Board Composition and Director Attributes

Interview Outline

- Ask participants to please fill out the data sheet – or fill it in with them.
- Complete Consent Form.
- Start the taped interview.

1. What is the view of your organisation in regard to director selection in New Zealand?
2. What qualities do you think make a good director?
3. What do you see as the special qualities you bring to your role in governance?
4. Please describe the way you believe directors are selected in the public sector in New Zealand? What are the advantages and disadvantages of this process?
5. Do you see similarities or differences between public and private sector director selection?
6. How are CEOs involved in director selection?
7. What, if anything, have you noticed about people CEOs recommend for board positions? Why do you think CEOs choose these people?
8. In terms of board composition, what attributes, qualities or skills have you observed are common in directors?
9. In your view, what are the key criteria for director selection? Please elaborate.
10. What sort of specialist knowledge, if any, do you think directors should have? Why? Please elaborate.
11. Should directors have training for their role and if so, at what stage/s?
12. What is the contribution of independent directors on the overall effectiveness of the board?
13. What ratio of executive to non-executive directors would you recommend for the ideal board? Why?
14. What do you think is the ideal size of a Board?
15. Has attention to issues of diversity impacted on the make-up of your board and/or the board dynamics? Please elaborate.
Do you think men and women directors on boards are essentially similar or essentially different? Please elaborate.

Do you think more women on boards will bring about change? In what ways?

When Jenny Shipley was Prime Minister she set a target of 50% women directors on public sector boards? Do you see advantages or disadvantages of setting such targets?

How does current legislation in New Zealand, particularly the Companies Act 1993, contribute to governance in New Zealand?

How do you perceive the identification and screening criteria for potential directors used by CCMAU?

What is the contribution of the shareholding Minister in the appointment process?

When there is a change in government, have you noticed any differences in how the director appointment processes work and if so, what are they?

What, if any, changes would you make to the way in which directors are selected in New Zealand?

What do you consider to be the use made of CCMAU’s database in the appointment process?

Diversity has been defined as a “broadening of the merit principle rather than an argument for representation” (Burton, 1991, p. 43). Do you relate diversity and merit or see any connection between the two?

Can you describe an incident when ethnicity affected governance?

Do you perceive that there are any or many cases where the ‘best person’ is not appointed? Please elaborate.

What are your views about the transparency of the government appointment process?

What advice would you offer to people who wish to be directors?

Do you have any questions you would like to ask me?

_May I telephone you if I have any points to clarify?_