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Unlocking the Role of Corporate Boards in Stimulating Corporate Governance

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Abstract Corporate boards have gained remarkable significance over the past few years due to the efforts of various scholars who explored the positives of corporate boards in the context of governance of companies. This paper investigates the effectiveness of corporate boards in stimulating corporate governance, generating shareholder value and examining physiognomies that affect good governance practices. The intention is to explore: how principles of corporate governance can be stimulated to be more effective and efficient; what attributes of corporate governance may influence the performance of corporate boards for satisfying the shareholder expectations. The methodology used for this paper is qualitative and employs an inductive approach along with exploratory and analytical philosophy. The findings of this paper emphasize the fair appointment process for directors and to increase the number of external directors in corporate boards; so that the significant issues of companies could be discussed properly and finalized timely.

Key Words
Corporate Boards, Corporate Governance, Effectiveness of Board of Directors

Key Attributes of Corporate Boards

Diversity

The diversity of the boards is characterized by different characteristics including age, gender, expertise and professional qualification. The proponents of diversity in corporate boards argue that more diversified boards of directors improve the independence and oversight of boardrooms, creates a variety of thoughts, viewpoints and experiences for the boardroom decision-making process. Diverse corporate boards can simplify and expedite an improved valuation of the complications of the external stratosphere of the company and the security of skills, professional contacts, good reputation and tolerability. It can also lead to innovations and growths in board rooms due to the differing abilities of rational ability that may also inspire influential and persuasive decision-making.

Corporate boards having qualified and competent people with varying qualifications can offer an established relationship with business associates, comprising users as well as the native public. This can improve the reputation of companies and prospects. For example, by coordinating the different abilities of a corporations' board with the different abilities of its customers and purveyors, it can principally upsurge its aptitude to infiltrate viable commercial markets. On the contrary, the advocates of less diverse corporate boards argue that boards with more different attributes do not necessarily lead to more restrictive control and decision making, since members of divergent boards can be chosen as an indicator of symbolism, and therefore their commitments could be limited. In addition, the diversity of boards could limit their energies to take conclusive act as well as pledge essential changes, particularly when the government is weak and unstable. Members of divergent corporate boards can pass on the problems and responsibilities of their person and their community to the board of directors.

The greater variety of qualities of these problems will stimulate the most notable potential for the emergence of confrontations and factions. This can limit the consistency of the meeting room and the execution of tasks. In addition, the idea that corporate boards should be created to emulate all of their vital associates and society runs counter to the business notion. This is because; if the members of corporate boards are not elected on merit to significantly increase the decision-making procedure of the boards of directors, *ceteris paribus*.

The authors argue that the concept of "diversity" within the boards is dissimilar from that of the "larger" boards. Hence, if large boards are relatively unproductive, this cannot be connected to the diversity of the board. The authors further argue that varied corporate boards are anticipated to increase

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the outcome and equity value of the company and its finances due to the diversity of their skills and the diversity of their background and business knowledge. The diversity of boards may have an actual effect on the characteristics of corporate governance, for example, supervision, because it can make corporate boards more independent.

The underlying idea to make the corporate boards varied is to bring a combination of diverse practices and skills. These boards can tackle extra threats because they could manage those risks, they would monitor the strategic decisions of the boards of directors, in other words, they could evaluate them better and they would have fewer possibilities of expropriation the stakes of shareholders, principally minority shareholders. As a result, diverse corporate boards can make a noteworthy impact on the promotion of corporate governance. In addition, an empirical study also established an affirmative connexion between the diversity of board members and the measurement of market performance using a model of 638 Fortune 1000 companies in 1997; and recommended that American companies with a larger diversity of the board of directors generate better financial and corporate performance, as recommended by corporate boards.

Similarly, by using a random sample of 117 South African companies registered in 2003, a remarkably favourable connexion has been reported among the ratio of indigenous persons on the boards and the return on scholarly capital. The argument was drawn that if varied corporate boards work well instead of homogenous boards, this should be reflected in their annual reports. To apprehend the influence of potential vicissitudes in the miscellany of the board, the model utilized in this research is likewise more extensive: 2002-2006. The investigation presented in this research likewise provides novel and cherished information about the different abilities of the board of directors and the literature on monetary performance relationships.

On the other hand, some studies reveal that variety in corporate boards has a bad effect on the performance of companies. An examination was initiated into the impact of the board's conflicting characteristics on a company's ability to fundamentally change the 335 US companies between 1980 and 1985. This suggests that the general conflicts between BODs are diversifying, which minimizes their ability to initiate vital reforms in a timely manner. South Africa offers a context of attention-grabbing research to determine the influence of several boards on corporate performance. Its population is ethnologically assorted. Since 1994, positive discrimination laws have aimed to reduce the negative social and economic legacy of apartheid. The Positive Discrimination Law aims to ensure that non-whites, principally black individuals, are employed to important positions in South African societies. The authors believe that investigating the multiplicity of boards of directors in this situation may bring fresh ideas that can augment the documentation of the performance of corporate boards.

The primary concern of corporate boards currently facing South African companies is the diversity and its impact on corporate performance. South Africa's Employment Equity Act of 1998 specifies that all companies with more than 100 staff members must guarantee that their workforce, counting their senior administration, consists of equilibrium between non-white and white.

The code of corporate governance of Pakistan analyses the diversity of the boards of directors. According to the Code, it is preferable and encouraging that corporate boards are diversified on the lines of corporate boards (as the Constitution of Pakistan 1973 states that no law can be made in Pakistan which is in repugnant with the injunctions of Islam); comprising of both genders representing the interests of minorities so that the operations of the society can be accomplished from more meticulous and effectual way. Nevertheless, these principles are not binding due to which face compliance problems.

Size

The size of corporate boards is another significant attribute that contributes to making the corporate board more effective and efficient. According to the agency theory, a corporate board with a large number of directors is considered bad for the performance of a company; on the other hand, the board with a small number of directors is effective for improving the performance of a company, eventually affecting corporate governance practices. The reason is that the smaller boards improve their monitoring performance; however, the larger boards tend to emphasize civility and gallantry rather than truth and openness in boardrooms. Moreover, the larger boards aggravate the problems of the agency that make the board more symbolic and neglect its supervision and control tasks.

In contrast, smaller boards are anticipated to be more integrated as well as to conduct more operative negotiations. As a result, all members of senior management have the opportunity to contribute and share their opinions in a timely manner. It should be noted that advocates for small businesses rely primarily on the organizational theory that groups develop fewer in effect due to associated problems that tend to outweigh the benefits obtained. In addition, big boards are affected by problems related to higher organisms and have much less influence than small ones.

In theory, larger boards develop cognizance and skills which are necessary for the improvement of management skills essential for better decision making. Alike tests are also available for companies listed in Australia, Switzerland and the United States, respectively. However, none of them provide any limit for the size of BODs. King II is likewise silent on this. However, in such a situation, the general rule applies that the size should be reasonable to make the board operational in an effective way. This recommends that although King II confesses that the size of a company's board will likely affect his performance, it still has the ability to determine the size of the company. A plausible explanation can be made for not requiring a specific board to conclude that the "one size fits all" approach to business management.

The 2014 UK Corporate Governance Code is also silent about the actual number of directors. Though, it is proposed that the size of the board is not greater than what should be required to comply with operational requirements; and if the composition of the board has to be altered, it could be changed. Pakistan's corporate governance code provides no specific number for the board of directors; instead, the number of BODs varies from 7 to 11 as a common practice in Pakistan.

Composition

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According to the agency's theory, boards of directors controlled by a larger number of executive directors are generally not accountable enough. Contrary to this, independent directors are more likely to contribute to independent decision making within the board. They complete their monitoring reports and effectively take advantage of the company's chattels. Moreover, the companies' having their top internal management comprises of executive directors instead of NEDs usurp the control of its board and the possibilities of confiscating the finance of shareholders; the administration is more likely to be born and collaborate with each other. In addition, it further lessens the healthy competition among managers to improve performance.

Independent NEDs have the capacity to manage and mitigate this collusion due to their incentives to mature and uphold their reputation as specialists in the control of board decisions. The likelihood of participation in core management is reduced. Likewise, by adding NED, the capacity of the board may be improved as a market framework through cheaper control replacement. Their impartiality helps independent directors evade gallantry and politeness to the detriment of the veracity, openness and constructive criticism without fear of victimization.

In addition, the selection of independent directors helps reduce the asymmetry of information by reporting the purpose of the CEOs in a reliable manner to treat potential external investors fairly and, therefore, protect their investment. They claim that the independent directors lack enough knowledge of business; therefore they are unable to tackle the complex issues because of the fact that they act as part-time directors as well as having the work-load of various companies being the board members of various companies at a time. Resultantly, it is difficult for them to give proper time in order to fulfill their advisory and supervisory responsibilities.

However, executive directors are mainly trusted people as well as virtuous custodians of the assets of the company. Hence, they understand business complexities and activities in a better way instead of external NEDs and are able to make better decisions for a company. They believe that most internal directors perform better than external directors since they surely strive to increase the profits of their shareholders. Therefore, the decisions of a corporate board having a majority of independent directors would not be of higher quality, ultimately leading towards the reduction in the positive outcome of a company. In response to these arguments, the authors submit that not all executive directors always care about the benefits of their shareholders, neither their preference is to make higher decisions for overall development and progress of a company instead; the chances of interlocking management and expropriation of minority shareholders' rights upsurge in the absenteeism of autonomous NEDs having monitoring role.

Moreover, the board of directors having the majority of NEDs are inclined to suppress premeditated plans and management initiatives because of unnecessary extra monitoring and lack of commercial knowledge. However, the majority of management positions are linked to the access to information required for superior decision making; which is vital for the better outcome of a company. However, the appointment of NEDs has reported a considerable proliferation of corporate boards towards corporate compliance with disclosure requirements. A series of corporate governance studies have also positively correlated the percentage of NEDs with the holding of foreign equities on a board of directors, as the foreign investors prefer NEDs as more active and operational to control the management of managers. While it comes to compliance, outside administrators can affect compliance with corporate governance and their reputation as directors.

Huge corporate scandals and commercial losses throughout the world have sought to improve corporate governance. The criteria for the designation of independent directors have been declared as a fundamental element liable for corporate disasters. The legislations have been improved, more comprehensive and to benefit from a group of people more expert, more representative of society. The existing directors are represented by a similar

small group, demographically same and subject to an embarrassing appointment procedure that is replicated. Despite the several years of transformation, the Walker Review of 2008 on the financial crisis, identified that bad corporate governance was the main reason for the failure however; even then the appointment mechanisms of NEDs' had not been changed.

The literature on the mechanism of appointment is that it is a defective mechanism, which occurs through references and links of the presidents. However, the mechanism of appointment at the individual level has not been examined. The existing literature conducted to review NEDs' selection mechanisms is mainly quantitative and does not explore the reality of the dating process. Hence, a qualitative study is required to review the NEDs' appointment process to broaden the understanding of the procedures included.

The regulations of the King II and JSE list establish that the number of NEDs must be greater than that of the executive directors. This suggests that the King Code states that the companies employing the majority of NEDs follow higher governance standards instead of those who employ less NEDs. However, there have been a number of swindles in South Africa in the yestern years due to the weakness of the board of directors that have failed to effectively supervise commercial activities and have not involved senior government officials as part of the process.

Given the significant impact of NEDs, the board of directors of UK companies must have a larger ratio of NEDs than executive directors. However, the board of directors of South African companies must have 50% NEDs. Though, Pakistan's corporate governance code requires the appointment of a single mandatory member of INED for businesses and prefers that one-third of board members have an INED, which is much smaller. Essentially, the corporate board is accountable for achieving the objectives of a company by guiding and monitoring its activities collectively; protect the benefits of its shareholders and closely connected stakeholders while taking into account applicable laws, regulations and business concerns. The corporate governance code of Pakistan requires that each listed company designate INEDs to at least one board member, preferably one third.

The authors argue that authorities must yield effective methods to provide striking compensation packages to recruit independent directors, as well as measures to ensure that NEDs are qualified and trained to meet the demand. In addition, another significant problem in this regard is to sensitize the stakeholders regarding the involvement of independent directors. In general, the stakeholders of Pakistan consider the NEDs as honorary office holders having no responsibility to talk about corporate policies or any other task.

Duties and Functions of Corporate Boards

The authors argue that the board of directors can increase the performance of a company as well as upgrade the corporate governance best standards by performing their duties with care and due diligence as well as following the strategies of corporate boards in terms of accountability, transparency, and fairness. The primary duty of a corporate board is to oversee the administration and outcome of a company as well as to direct and control the company on behalf of the investors. A corporate board is answerable for a number of tasks including the supervision of a company's management; guaranteeing the transparency and reliability of audit; fair remuneration to the employees; making appointments and finally, ensuring the smooth running and success of a company.

The authors further argue that such practices are essential to Pakistan's corporate governance structure, where companies are run on the basis of personal stakes or for the welfare of the principal shareholders, namely families and state-owned enterprises. As a result, the minority shares were left vulnerable. This issue can be handled in two ways: one by making changes to the corporate governance code and by defining the roles of the boards, leaving no space for certain groups to damage the interests of the boards of directors. Weaker in second place, institutional investors can play a positive role in following up on the activities of the directors and making their voices heard in the general assemblies.

Effectiveness of BODS

The effectiveness of the BODs combines several factors, such as the process of appointment of boards of directors, their degree of impartiality; regularity of meetings of the board, the growth of directors if managers are regularly trained to familiarize them with the new corporate governance code, the related laws and their responsibilities in accordance with the evolution of the corporate world; the evaluation of the performance of the BODs; the decision-making policies and the implementation of corporate governance best practices in order to meet national and international standards.

The authors argue that the administration process in Pakistan must be fair and rigorous. For example, for the adoption of fair appointment of directors, a nominating committee must be set up. The majority of its members must be independent directors, including its president. In addition, NEDs must be appointed for a specific period of time, in accordance with the legal provisions regarding the dismissal of a director. The mandate of the NEDs beyond six years must be subject to a thorough review and must take into account the need for an informed

revitalization of the board. The annual report should have a specific division clarifying in detail the appointment procedure of the board of directors as well as other working strategies of the committee. It should also elaborate on the board's policy on diversity, including gender, for what has been defined to implement the strategy and develop it to achieve those objectives.

Company law and the code of corporate governance talks about the directors' qualification but do not provide any fair and rigorous mechanism of appointment and dismissal. Neither the ordinance nor the corporate governance code applauds training requirements for an individual suitable for the position of director in Pakistan. As a director has several significant duties to perform, the director must be qualified, having experience for the proper functioning of his office. Therefore, the corporate governance code or ordinance must contain specific provisions that establish the specific criteria that must be met by the person who performs the functions of the director.

The PICG should strive to train and educate administrators appropriately about the significance and impact of corporate governance benchmarks along with their execution. People should be prevented from being directors of a publicly-traded company and not considering the importance of attending training and not taking exams. The application of this mandatory certification rule to the directors will have a beneficial effect on the reduction of disasters.

That said, the authors say that, instead of organizing many board meetings, the implementation of a system tailored to specific problems shall be more impactful. In that case, meetings may be held more regularly in the event of a crisis; for instance, when the replacement of the executive director is required, the interests of the shareholders are visibly at risk or fight against aggressive acquisitions and when the risks are involved. The objective is to bound directors in order to give proper time to the company for performing their duties adequately.

The corporate governance code of the United Kingdom requires the board of directors to establish a formal annual evaluation of its directors. For this purpose, the evaluation should be on the basis of relevant experience, knowledge, independence, diversity, and other factors related to the effectiveness of the corporate board. The chairman should monitor the evaluation mechanism and take suitable measures based on the evaluation of the results when classifying the positives and negatives of the board. In addition, individual evaluation should also be conducted in order to determine the dedication of each director towards their responsibilities.

Likewise, King III also offers a thorough method for the assessment of directors, collectively and individually along with its committees. Conversely, the corporate governance code of Pakistan does not prescribe any mechanism of evaluation of this kind. Therefore, it is acclaimed that the corporate governance code of Pakistan must include detailed and binding provisions for the evaluation of directors of its listed companies along with their committees on a regular basis. This is because accountability is essential for the better shield of shareholders' rights and the better performance of companies.

Conclusion

This paper explored the role of corporate boards in order to make them more effective and efficient. It also investigated the various attributes of corporate boards including; diversity, size, and composition and explored how these attributes affect working strategies of corporate boards that ultimately stimulate the corporate governance of companies. It established that diverse corporate boards having a balance of gender and expertise are more efficient, focused and effective. The current paper established that the inclusion of an effective mechanism of accountability in corporate boards will have a positive impact to meet the shareholders' expectations and to stimulate the implementation of corporate governance standards. This paper draws a strong comparison of the attributes of the corporate board with that of the corporate boards of other strong jurisdictions such as the United Kingdom and South Africa having robust and well-established principles of corporate governance.

Rating agencies, electronic and print media can play a significant role in making the corporate boards accountable for implementing the corporate governance principles, as it will impact the reputation and equity value of the respective companies. Moreover, institutional investors being large-shareholders and non-executive directors being independent and having a monitoring role can be beneficial for creating a fundamental change in the minimalist working strategies of the board of directors.

In conclusion: by increasing the number of independent directors in corporate boards; making the directors' appointment mechanism more rigorous; providing appropriate trainings to directors regarding their roles and new corporate governance yardsticks; by creating a balance in corporate boards in terms of diversity, size, and composition; and by creating an effective system of accountability, the advancement of corporate governance principles in the business market of Pakistan can be ensured. This paper submits that these steps will surely unlock the role of the board of directors in stimulating the corporate governance in Pakistan's corporate sector.

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