



# SNS Board Project Survey results

Per Strömberg  
SSE and SHoF

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# BOARDS IN CORPORATE GOVERNANCE

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- One of the main mechanisms in corporate governance
  - Compensation
  - Ownership activism
  - Capital structure
- Two important board roles:
  - Monitoring management on behalf of owners
    - Hiring/firing, financial reporting, compensation
  - Advising and assisting management
    - Experience, know-how, networks, etc. to assist strategy and operations

# RESEARCH ON BOARDS: SUMMARY

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- See Adams, Hermalin, Weisbach (2010) for a review
  - Mostly focused on monitoring (not advising) role, mostly U.S. data
- Document factors associated with “better” boards (higher firm value, better CEO hiring/firing decisions, better M&A)
  - E.g. larger boards, less independent boards, CEO-chairman, “busy” members → worse performance
- Caveat: board structure endogenous!
  - E.g. small boards lead to higher valuations or smaller boards optimal in higher-valued (e.g. growth) firms?



# PURPOSE OF THIS STUDY

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- Previous research:
  - Rough measures of board structure and performance
  - Overemphasis on monitoring role, simple decisions
  - Too quick to make causal statements
  - Too U.S. centric
- This study:
  - Exploratory rather than normative
  - Finer measures of board composition, working practices, and communication
  - Focus on difference across ownership forms

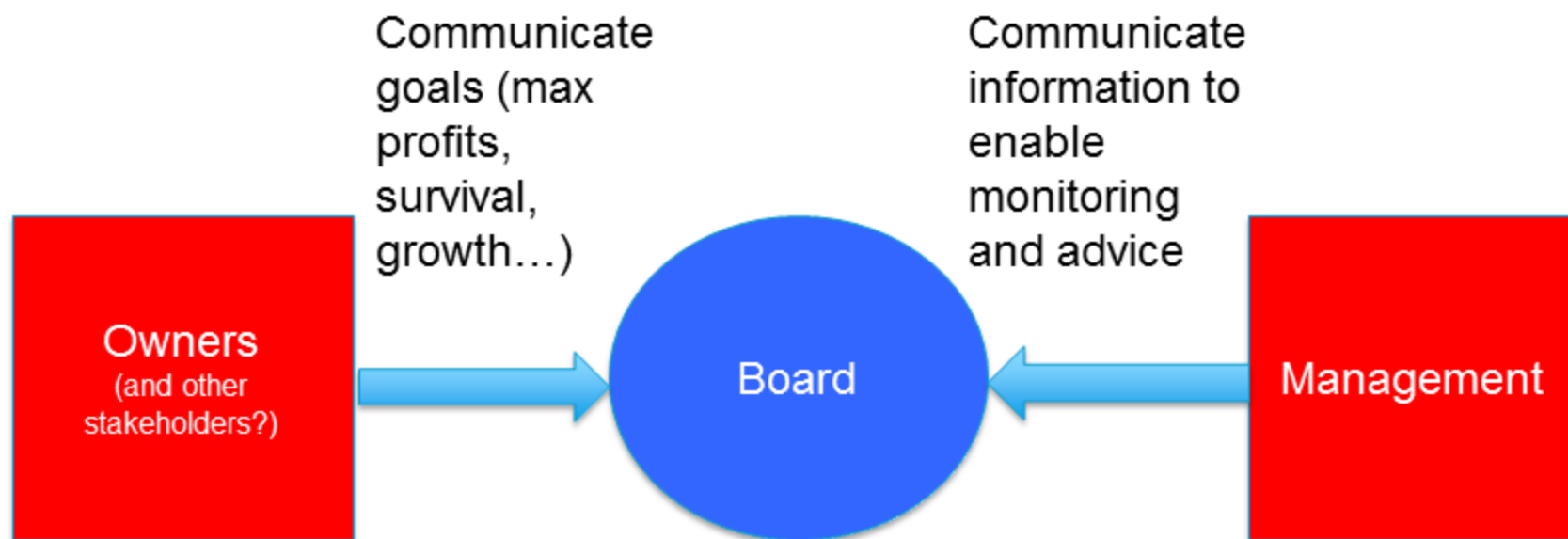
# PURPOSE OF THIS STUDY (2)

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- Interesting to compare boards across ownership forms
  - Previous research has documented efficiency gains in connection with PE transactions (see e.g. Kaplan & Strömberg, 2009; Acharya et al, 2013)
    - Often attributed to governance model (Jensen, 1989) → natural to look at boards
  - In contrast, government-owned firms often associated with lower efficiency (see e.g. Megginson & Netter, 2001; Bloom et al, 2009)
- Acharya, Kehoe, Reyner, 2009: compare PE with public co boards, survey of 20 UK chairmen or CEOs
  - PE boards smaller, more incentive pay for members
  - PE more focus on value creation, public on risk mgmt & compliance
  - PE more alignment with owners, public more stakeholder oriented
  - PE receive more cash-focused info, more extensive induction into board; public more diverse info, more formal induction

# WHAT IS NEEDED FOR EFFECTIVE BOARD?

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Work effectively:  
Board composition  
Allocation of time and tasks  
Effective decision making

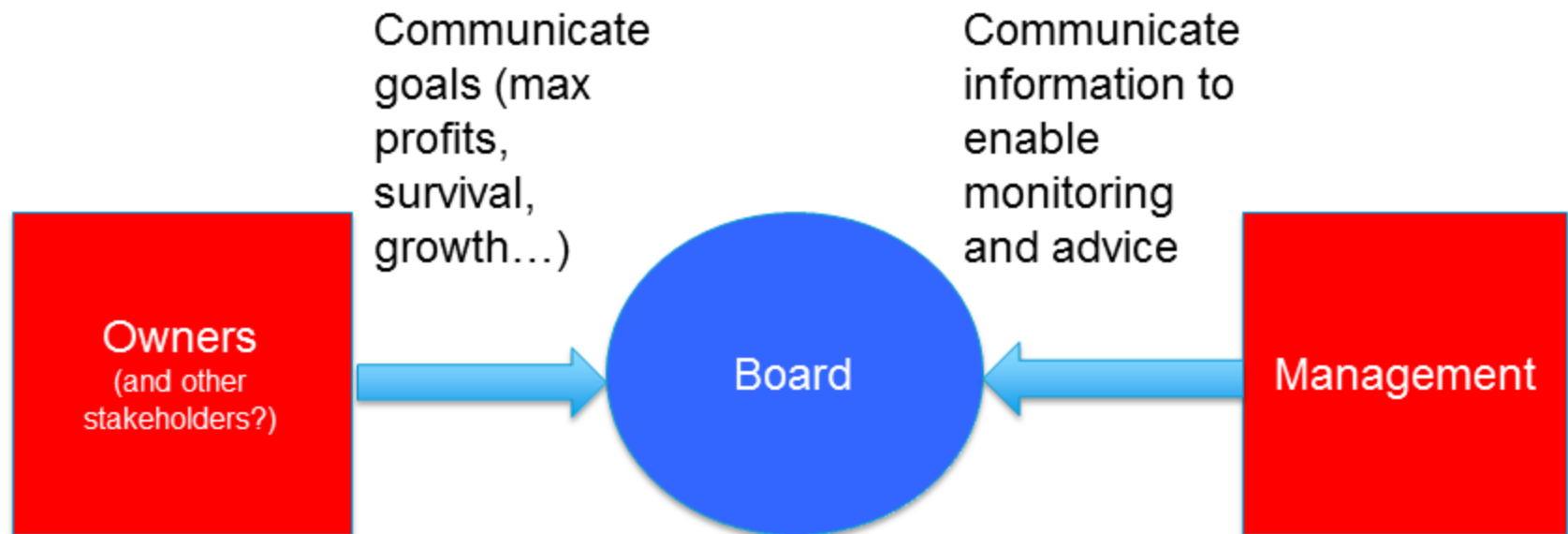
# SAMPLE

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- 75 board members (60 distinct companies) in Sweden
  - 25 (23) publicly traded (60% with dominating owner)
  - 19 (15) PE-owned
  - 27 (20) government owned
  - 4 (2) private non-PE
- 28 chairs, 31 ordinary members, 16 labor reps
- 55 male, 20 female
- Average 57 years old, 5 years on the board
- Median firm: SEK 1B in sales, SEK 1.7B in assets, 454 employees
  - Max is > 150B sales, >400B assets, >250 000 employees

# WHAT IS NEEDED FOR EFFECTIVE BOARD?

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**Work effectively:**  
**Board composition**  
**Allocation of time and tasks**  
**Decision making**



# BOARD COMPOSITION: DIVERSITY

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	Mean	Mean	Mean	Mean	Mean
	N members	perc women	perc foreign	perc labor	perc indep
Public	6.522	0.304	0.057	0.198	0.652
PE	5.571	0.173	0.135	0.199	0.447
Government	7.333	0.507	0.042	0.246	0.738

- Regression results:
  - Board size driven primarily by size of company
  - PE fewest women, Govt most women
  - PE fewer independent
  - Board turnover higher in public companies without dominating owner

# BOARD COMPOSITION: EXPERIENCE

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	<b>Type of experience:</b>					
	CEO	Mgmt other	Investment	Government	International	Academic
Börs	100%	96%	91%	52%	100%	48%
PE	100%	100%	100%	43%	86%	14%
Privat	100%	100%	100%	0%	50%	0%
Stat	100%	94%	94%	100%	75%	44%
Total	100%	96%	95%	62%	87%	36%

- CEO and management experience is dominant background among all ownership types
- PE less diverse than other groups in terms of experience
  - Significant in regressions, where distinguish between none/one/several
  - Driven by fewer members with government and academic backgrounds

# WORKLOAD

	Regular meetings (number)	Extra meetings (number)	Length (hours)	Too short? (-3 to +3)	Just right? (-3 to +3)	Too long? (-3 to +3)
<b>Public</b>	7.0	3.1	4.8	- 1.8	1.9	- 2.0
<b>PE</b>	5.8	2.3	5.0	- 1.7	2.0	- 1.7
<b>Govt</b>	7.6	1.9	4.4	- 1.3	1.6	- 1.4

	Board work, total Days	Board work, meetings Days	Board work, preparation Days	Attendance, ord meetings %	Attendance, extra meetings %
<b>Public</b>	25.4	10.7	14.7	95.3	92.1
<b>PE</b>	15.8	8.9	6.9	98.2	93.4
<b>Govt</b>	18.8	10.7	8.7	95.2	93.8

- Public co's more demanding on time, but mainly function of firm size
- Regressions:
  - PE and public with dominating owners most content w meeting times
  - Chairs spend more time, but most happy with length of meetings

# DIVISION OF TIME IN BOARD WORK

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	<b>Board meeting</b> % spent	<b>Committee meeting</b> % spent	<b>Meet mgmt outside</b> % spent	<b>Meet without CEO in board</b> (-3 to +3)	<b>Meet with other mgrs in board</b> (-3 to +3)
<b>Public</b>	65.8	9.0	25.2	0.2	1.4
<b>PE</b>	69.7	8.5	21.8	- 0.4	1.1
<b>Government</b>	62.0	9.3	28.6	0.0	1.5

- Unlike UK study, no indication that PE members have more interaction with mgmt outside of board room

# DIVISION OF TIME IN MEETINGS

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	Presentation	Discussion	Routine decisions	Other decisions	Spontaneous discussion
Public w dom owner	54.6	45.4	36.4	45.4	18.2
Public wo dom owner	53.8	46.3	40.0	40.7	19.3
PE	54.3	45.7	34.3	48.9	16.8
Government	53.8	46.3	30.3	49.7	20.0

- Division between presentation and discussion very similar across ownership types
- Some indication that public companies w/o dominating owners spend more time on routine decisions (although not sign in regressions, controlling for firm size)

# ISSUES COVERED IN BOARD MEETINGS

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How often do board meetings cover: 1 (never) to 5 (every meeting)

	Long-term strategy	Risk analysis	Succession planning	CSR	Financial reporting	Compensation
Public w dom owner	3.3	4.2	3.1	4.0	4.6	3.2
Public wo dom owner	3.0	3.9	2.9	3.6	4.9	3.6
PE	3.4	3.5	2.4	3.5	4.6	2.9
Government	3.6	3.8	2.4	3.9	4.5	3.1

- Focusing on areas where most notable differences
- Public companies spend less time on long-term strategy, more on risk analysis, succession, financial reporting
- PE spend less time on CSR and compensation

# BOARD COMMITTEES

	Fraction of companies with committee for						Fraction w. no comm.	Number of committees
	Audit	Compensatio	Credit	Investment	Finance	Other		
Public	71%	71%	0%	13%	4%	4%	25%	1.6
PE	47%	53%	0%	0%	12%	6%	29%	1.2
Government	64%	64%	9%	0%	23%	18%	23%	1.8
Total	62%	64%	3%	5%	13%	10%	25%	1.6

Number of committees  
(OLS)

Private equity	-0.809**
	-2.433
Government	-0.624*
	-1.774
Public co w dominating owner	-1.117***
	-3.594
Log Assets	0.338***
	6.387
Constant	-2.708***
	-3.311
Observations	52
R-squared	0.476

- Audit and compensation committee most common
- More committees in larger companies
- More committees in public co's without dominating owner (omitted group in regression)

# BOARD DECISION MAKING

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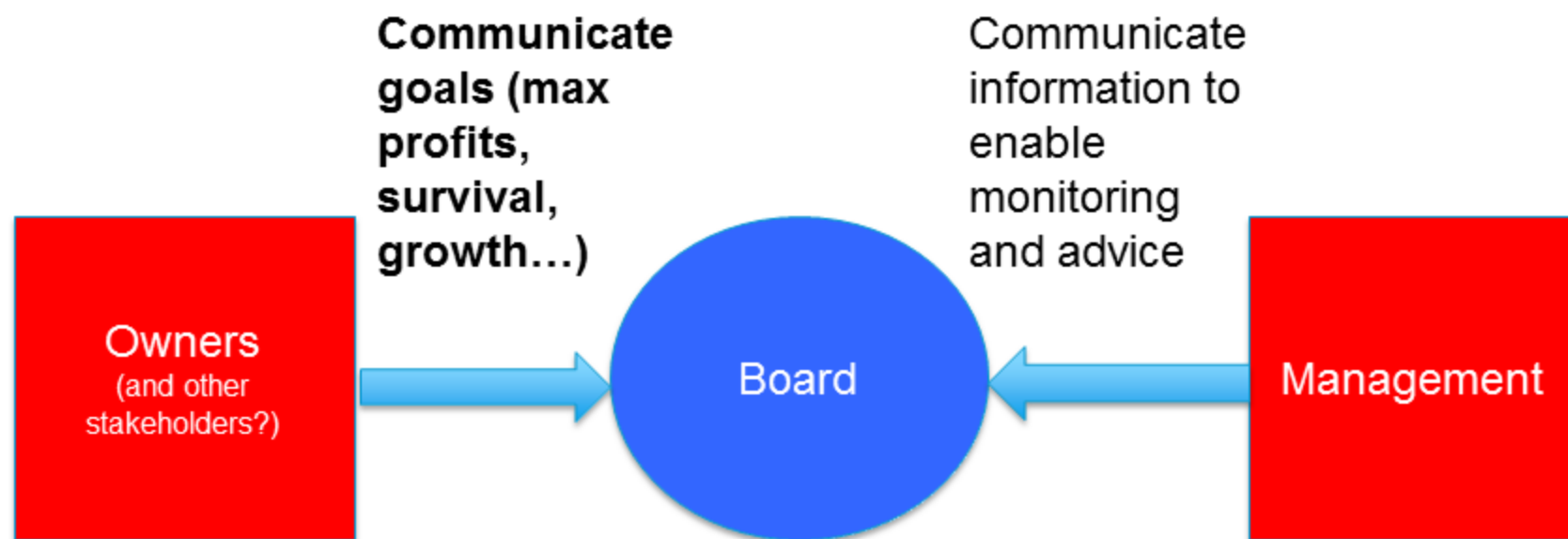
	Feel that decisions made in board room	Alternative decisions proposed	% decide on mgmt proposal as is
Public with dom owner	1.938	-0.062	67.2
Public without dom owner	0.857	0.429	71.4
PE	1.188	-0.133	60.8
Government	1.364	-0.227	63.2
Total	1.41	-0.083	64.6

- Large differences in public co's dep on ownership:
  - Without dom owner: more alt proposals, less likely to feel decisions made in board room, more likely to go with mgmt (not sig)
  - Chairs feel decisions are made in board room more than other members (regression)



# WHAT IS NEEDED FOR EFFECTIVE BOARD?

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## Work effectively:

Board composition  
Allocation of time and tasks  
Balance  
consensus/conflict  
Incentives of members

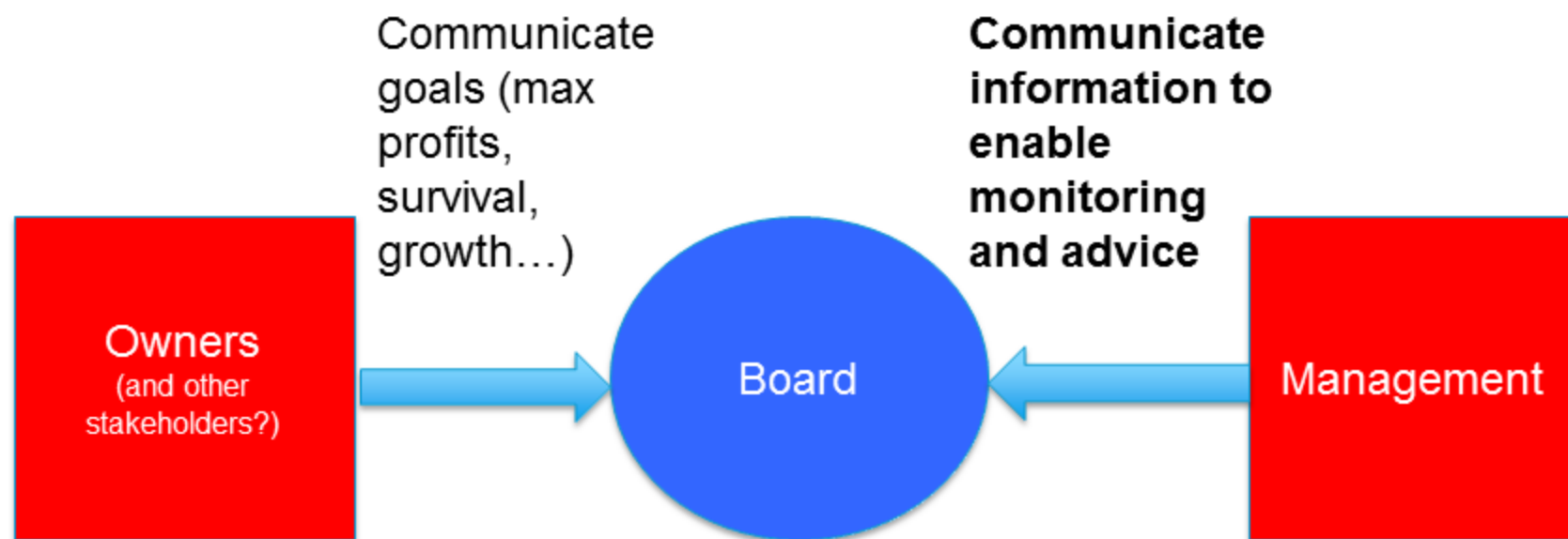
# RELATIONSHIP WITH OWNERS

	I have clear picture of owner's goals	Board has regular dialogue with owners		Owner's goals clear	Good dialogue with owners
Börs	2.217	2.565	Private equity	0.750**	0.550*
PE	2.562	2.867	Government	2.051	1.920
Privat	1.75	2.5		-0.212	0.324
Stat	1.667	2.667	Public co w dominating owner	-0.445	1.166
Total	2.094	2.667		0.419	0.384
			Log Assets	1.083	1.538
				0.046	0.048
			Chair	0.698	1.069
				0.477	-0.129
			Labor rep	1.367	-0.749
				-0.764*	-0.312
			Constant	-1.821	-1.189
				1.161	1.745**
				1.145	2.273
			Observations	64	63
			R-squared	0.203	0.187

- PE members have significantly stronger owner relationship
- Labor representatives have less clear picture about owner's goals

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# INFORMATION TO BOARD MEMBERS (1)

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	Introduction of company to:		Board materials:				Overall (sum)
	New members	Continuously	Complete	Structured	Informative	Timely	
Börs	1.182	0.55	2	2.13	2.136	1.522	7.864
PE	0.143	-0.286	2.467	2.438	2.375	2.25	9.4
Privat	-1.25	-1.75	0.25	1.25	1	0	2.5
Stat	1	-0.143	1.5	1.381	1.545	1.955	6.667
Total	0.726	-0.051	1.828	1.906	1.922	1.754	7.484

- Formal introduction/training about company most common in publicly traded corporations
- PE ranks highest in terms of quality of board materials

# INFORMATION TO BOARD MEMBERS (2)

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	Protocols appropriately capture:					Board has routines to follow up				
	Discussions	Decisions	Appropriate detail	Timely	Overall (sum)	Information provided between meetings	Financials	Implementation of decisions	Earlier decisions	Overall info and follow-up (sum)
Börs	1.304	2.783	2.227	2.13	8.5	1.652	2.522	2.273	2.043	8.455
PE	2.4	2.8	2.6	1.733	9.533	2.133	2.8	2	1.733	8.667
Stat	1.364	2.682	2.182	1.909	8.136	0.136	2.095	1.857	1.636	5.619

- PE ranks highest in terms of protocols and information provided between meetings
- In follow-up, PE focuses on more on financials

# MANAGEMENT-BOARD COMMUNICATION

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VARIABLES	Mgmt-board communication index (0 to 1)
Private equity	0.077* 1.842
Government	-0.101** -2.169
Public co w dominating owner	-0.001 -0.028
Log assets	0.021*** 3.390
Chair	0.076** 2.072
Labor representative	-0.079** -2.155
Constant	0.506*** 5.694
Observations	54
R-squared	0.385

- Communication index gives equal weight to materials, protocols, info betw meetings, follow-up
- Larger firms score higher overall
- PE score significantly higher, and government significantly lower, compared to public co's and consistent signs across subindexes
- Chairs perceive communication to be better, and labor reps communication to be worse (consistent signs across subindexes)

# SUMMARY OF RESULTS

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- Board size and composition:
  - PE boards smaller, but mainly function of firm size
  - PE boards less diverse: fewer women, fewer independents, fewer with govt or academic background.
- Time spent on board work
  - Driven more by firm size than ownership form
  - PE spend less time on CSR and compensation, more content with meeting times
  - Some indication that more time spent on routine decisions in public comp's without dominating owners (although not stat sign)
- Board decision making
  - Members of PE and public co with dominating owners more likely to perceive that decisions made in board room
  - Some tendency for public cos without dominating owner to vote more with management proposals "as is"

# SUMMARY OF RESULTS, CONT.

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- Communication owner and board
  - PE ranks highest on understanding owner's goals
    - Labor representatives have less clear picture
- Communication management and board
  - Larger firms have better communication overall
  - PE score significantly higher, and government significantly lower, on communication compared to public co's
    - PE reporting more financially focused
  - Chairs perceive communication to be better, and labor reps communication to be worse





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