What Makes Boards Effective? Moving beyond Non-Executive Directors' Independence

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Abstract
This paper addresses the question of what makes boards effective by exploring governance attributes that go beyond board independence. Academic literature has predominantly focused on the independence of non-executive directors in board effectiveness and performance. However, there has been insufficient literature on the capability of non-executive directors in performing their roles and improving board effectiveness. Having considered evidence from agency and upper echelons theories, we propose that non-executive directors' experience and diversity of age are more suitable proxies of board effectiveness. This theoretical paper contributes to the growing body of corporate governance research on board effectiveness by integrating the two theories with the purpose of creating a more holistic theoretical perspective.

Keywords: Board effectiveness, Non-executive directors, Experience, Age Diversity

1. Introduction

Academic literature has predominantly focused on the independence of non-executive directors in board effectiveness and performance. However, there has been insufficient literature on the capability of NEDs in performing their roles and improving board effectiveness. This paper seeks to contribute to the existing literature on board effectiveness by moving beyond non-executive directors' (NEDs) independence as the conventional proxy of effectiveness. Specifically, we aim to integrate agency and upper echelons theories as the theoretical framework from which other proxies of board effectiveness can be derived. From this discussion, we argue that directors' experience and diversity of age are more suitable proxies of board effectiveness. The structure of this paper is as follows: First, we discuss the roles of and, importance of having NEDs on the board of directors. Second, we discuss key findings and identify the gaps in academic literature on board effectiveness. Third, we provide an overview of agency and upper echelons theories as the theoretical framework behind our propositions. Finally, we discuss our conclusions and end the paper with implications for future research.

The last two decades have seen various changes and developments of corporate governance practices, processes and structures. One of the catalysts of these changes has been numerous corporate failures, scandals and misconduct of directors, which exposed a high level of mismanagement and incompetence (Zalewska, 2014). As a result, corporate governance research has increasingly focused on boards of directors and in particular, the presence of independent NEDs. Corporate governance researchers show that NEDs in general play multiple roles on boards, which include a strategic role, a monitoring role and a resource provision role (Hillman, Withers & Collins, 2009; Pye & Camm, 2003). The approaches adopted in many countries, including the UK, are centred on NEDs having an ex-ante rather than an ex post monitoring role. Ex-ante monitoring refers to influencing and controlling projects, strategies and implementation plans that are consistent with the shareholders' objectives (Zalewska, 2014). However, in order for ex ante monitoring to be effective Zalewska (2014) notes that there has to be a strong board with the required level of expertise. Further to this, Solomon (2013) states that for NEDs to effectively play a monitoring role, they need to be independent. Other researchers have shown that the presence of NEDs on boards provides an independent element that benefits the board in performing all of its roles (Ben-Amar & Zegal, 2011; Carter & Lorsch, 2013). Nicholson and Kiel (2004) state that a board has a capability set that enables it to perform its role to varying degrees. However, academic literature has predominantly focused on the independence of NEDs in board effectiveness and performance. Consequently, there has been scarce literature on the capability of NEDs in performing their monitoring and strategic duties and, improving board effectiveness. Therefore, this paper will contribute to literature by proposing alternative proxies for board effectiveness that capture the capability of NEDs in performing their roles.

2. Literature Review

The majority of corporate governance studies have focused on NEDs independence rather than their capabilities in effectively performing their roles. Azlan Annuar (2014) notes that maintaining independence means more than just being independent of related parties and extends to the capability of maintaining integrity and objectivity in the midst of mounting pressure. Independent NEDs are widely recognised to have a preventative capacity. However, there have been many instances, such as the Enron scandal, where there have been blatant corporate failures in the presence of numerous independent NEDs. There is still an apparent presumption amongst corporate governance researchers that independent NEDs are able to act in a preventative capacity through monitoring the actions of executive directors and protecting investor confidence (Uadiale, 2010; Zattoni & Cuomo, 2010). Given that the majority of problems of corporate governance are due to information asymmetries between agents and principals, policy makers have directed their efforts towards creating better conditions for effective ex ante monitoring (Zalewska, 2014). A study by Haniffa and Hudaib (2006) concludes that the negative correlation between board independence and performance identified in literature can be attributed to NEDs lacking real independence or business knowledge to be truly effective. Management literature suggests that NEDs with both functional and firm-specific knowledge and skills should be more effective in their strategic decision-making (Zattoni & Cuomo, 2010). This line of research emphasizes a wider issue beyond independence where NEDs should possess relevant skills, attributes and experiences that enable them to effectively exercise control and monitor management. While there is a growing body of literature looking at board structures, there remains little understanding of the optimal structure and attributes of an effective board. Therefore, our paper aims to address this gap in understanding by exploring two key theories from which such attributes can be derived.

2.1 Board effectiveness and Firm Performance

Prior literature has often related board effectiveness to director independence, board size, existence of board committees and directors' attendance at board meetings (Ben-Amar & Mcllkenny, 2015). However, Zona and Zattoni (2007) describe board effectiveness as the extent to which boards perform actions in order to achieve their monitoring and strategic duties. The strategic and monitoring actions of a board are important determinants of board effectiveness (Brennan, 2006; Duchin, Matsusaka & Ozbas, 2010). Laoworapong, Supattarakul and Swierczek (2015) note that academic debates on board effectiveness have neglected the importance of defining how to measure effectiveness. According to Nicholson and Kiel (2004), understanding board effectiveness requires an understanding of boards' contribution to corporate outputs and board outputs. The desired corporate outputs in profit making organisations is firm performance. Board outputs relate to the functioning of a board as a group as group dynamics have a strong effect on a board's effectiveness (Nicholson & Kiel, 2004). This is consistent with Schmidt and Brauer (2006) who suggested that the group dynamics and behaviour of a board in strategic decision-making are better indicators of effectiveness.

Prior studies on board effectiveness have produced insufficient empirical results to fully establish a causal relationship between board effectiveness and firm performance (Schmidt & Brauer, 2006). However, Brennan (2006) and Laoworapong et al. (2015) found that firms with better corporate governance characteristics and high board effectiveness had better financial performance. Therefore, figure 1 below displays our empirical model reflecting the conceptual framework of this study.

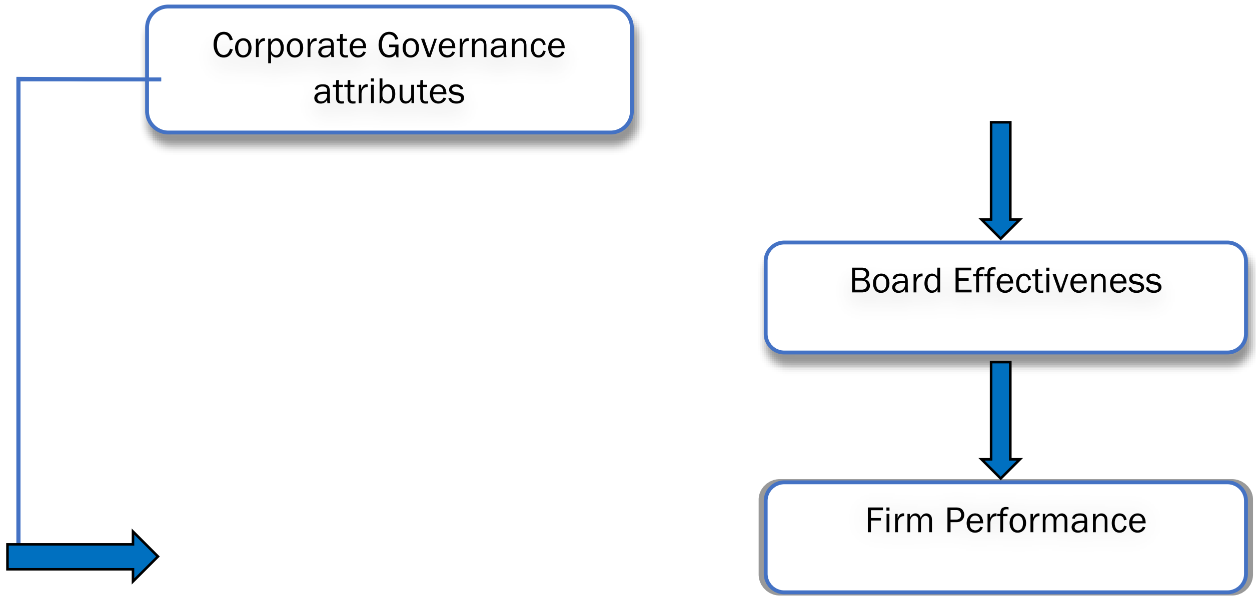

Figure 1: Conceptual Framework, Adapted from Laoworapong et al. (2015)

Corporate governance attributes, which in this case are the NEDs characteristics, should have a direct effect on firm performance. Likewise the determinants of board effectiveness, group dynamics and board behaviour, directly have an impact on firm performance. Therefore, by enhancing board effectiveness, corporate governance attributes will also have a positive impact on firm performance (Laoworapong et al., 2015). Khanna, Jones and Boivie (2014) suggest that firm performance is best represented in accounting based measures such as return on assets (ROA) and return on equity (ROE). This is because accounting based measures indicate the effectiveness of the governance of a firm whilst market based measures are based on investors' perceptions (Khanna et al., 2014). Therefore, we propose that firm performance should be measured using ROA, ROE and Tobin's Q.

3. Theoretical Framework

An effective board of directors is central to agency theory's prescription for solving the problems that arise from the separation of ownership and control in organizations (Laoworapong et al., 2015). Agency theory focuses on incentivisation and the monitoring role of directors. However, the biggest limitation of agency theory is it does not focus on the attributes of individuals that improve the board's effectiveness and monitoring capabilities. Therefore, we integrate upper echelons theory, which is centred on the notion that the attributes of individuals can strongly enhance strategic decision-making and effectiveness.

Similarly, Fabel (2004) acknowledges that even when directors have the correct links, incentives and power to implement their decisions, they make good or bad decisions because they differ in their capabilities. Therefore, our theoretical framework identifies the attributes that enable NEDs to be effective in their roles and resource provision.

3.1 Agency Theory

Agency theory is arguably, the foundation of many corporate governance frameworks, practices and regulatory initiatives. A major concern in corporate governance and transparency development is about corporate control. In the modern world the "*...separation between ownership and control of corporations characterises the existence of a firm...*" (Bonazzi & Islam, 2007, p.7). Agency theory identifies a principal-agent relationship in firms, where directors work as agents on behalf of shareholders. This separation of ownership from control not only brings about a conflict of interest, but also results in information asymmetry, as shareholders are not involved in the daily running of the firm (Leung et al., 2014). Agency theory assumes a firm's actions are compelled by individuals' pursuit of self-interest, with contracts overseeing relationships between management, shareholders and employees (Mihret, 2014). Therefore, agency theory offers shareholders the pre-eminent position in organizations, not just as the owners, but also as the residual risk takers (Clarke, 2004). Agency theorists propose that the directors themselves must also be monitored in order to minimise abuse of power. Bonazzi and Islam (2007) state that this can be done through the use of external auditing on financial reports and through employing independent NEDs. In this separation of ownership from control, agency theorists assume that inside directors are more inclined to side with managers' interests whilst NEDs are better suited to represent and protect shareholders' interests (Hillman, Cannella & Paetzold, 2000). Therefore, the key role of independent NEDs is to monitor management on behalf of shareholders, as effective monitoring can reduce agency costs and improve performance (Hillman & Dalziel, 2003).

Agency theory offers a major theoretical contribution to organizational literature by regarding information as a commodity that has a cost and can be purchased (Clarke, 2004). This implies that organizations can invest in information systems, such as boards of directors and auditors, to control agent opportunism. However, a major limitation of agency theory is that agency theorists have not openly considered that boards may vary in their ability to monitor (Carpenter & Westphal, 2001). Wiseman, Rodriguez and Mejia (2012) argue that although agency problems are universal, their manifestation and the solutions in which they should be dealt with may vary depending on the institutional context. As a result, Clarke (2004) recommends that, although agency theory presents a valid view of organizations, additional theoretical perspectives can help capture the greater complexity of organizations. This paper takes into account Clarke's (2004) recommendations and adds to existing literature by integrating upper echelons theory to offer an additional theoretical perspective that focuses on NEDs monitoring capabilities in improving board effectiveness.

3.2 Upper Echelons Theory

The central idea of upper echelons theory is that because senior executives view the world through lenses of their personal values, experiences, personalities and backgrounds, these characteristics can be used to predict executives' strategic choices and organizational outcomes (Cannella & Pettigrew, 2001). In addition, Hambrick and Mason (1984), suggest that the choices of top managers are influenced by their cognitive base and their values and, since such psychological constructs are not easily observable, they suggest the demographic characteristics of top managers are suitable and reliable proxies for their cognitive base and values. The values and cognitive bases of executives are said to be a function of their observable individualities such as education, experience, age, gender and nationality, which provide a basis for studying team dynamics by demographic proxy (Carpenter, Geletkanycz & Sanders, 2004).

"*If we want to understand why organizations do the things they do, or why they perform the way they do, we need to understand the people at the top*" (Hambrick, 2005, p.111). From an upper echelons perspective, the study of top managers and executives is of utmost importance because they are a highly visible embodiment of organizations including its strategic direction, credibility and values (Hiebl, 2013). Upper echelons literature examines the top management team of organizations as being the people at the top. Wong, Ormiston and Tetlock (2011) describe a firm's top management team as the CEO, top managers and senior executives of a firm that are involved in making strategic decisions. Undoubtedly, the upper echelons body of literature is a flourishing one. While empirical evidence exists to suggest that executives matter to firms, the results of empirical research are not wholly consistent. Research on top management team heterogeneity has produced inconsistent findings, which may be due to this research neglecting the influence of power and status within a team (Jackson, Joshi & Erhardt, 2003). In addition, Carpenter et al. (2004) observe that another major limitation of upper echelons framework is its focus on the top management team only, whereas there are other individuals, such as the board of directors, whom should be pivotal to the upper echelons model. This paper will refer to the top management team as the board of directors of a firm. Zattoni and Van Ees (2012) found that the majority of studies in corporate governance research used a single theoretical framework, and highlighted that the combination of two or more theoretical frameworks was a promising avenue for future governance research. Consistent with this, we formulate our theoretical framework by integrating agency and upper echelons theories in the next section.

3.3 Synthesis of Agency and Upper Echelons Theories

Upper echelons theory proposes that in order to understand why organizations perform the way they do, researchers must consider the biases and dispositions of their top executives, whom Hambrick (2007) described as an organization's most powerful actors. Although the definition of the top management team differs among studies, the upper echelons stream generally refers to senior executives of companies and assumes these to be the individuals with the ultimate decision making power in firm. However, this assumption omits a broader set of position holders, the board of directors, who are arguably the most powerful actors in the firm (Nielsen, 2010). Bhagat and Bolton (2008) state that the board of directors is a key corporate governance mechanism that is ultimately responsible for the success and performance of a firm. Scholars who invoke the upper echelons perspective typically argue that senior executives should be of interest because individuals at higher levels in the organizations are expected to exert greater influence on strategic decisions (Carpenter et al., 2004).

If this is the case, then consistent with agency theorists' propositions, it can be assumed that board of directors, who are at a higher level than senior managers, should exert even greater influence on strategic choices and organisational outcomes.

After the initial development of the upper echelons framework, Hambrick (2005) later suggested a moderator of the relationship between managerial characteristics and organizational outcomes, namely, managerial discretion. Managerial discretion is based on the idea that the importance of senior executives is dependent on the level of discretion or latitude of action they possess in making strategic choices (Hiebl, 2013). The implications of managerial discretion in the upper echelons framework are that upper echelons provide great predictions of organizational outcomes in direct proportion to the level of managerial discretion. Further to this, Peterson et al. (2003) found that the CEO's personality can impact the dynamics of a top management team and such differences in power and status produce dynamics that affect upper echelons relationships. This implies that the upper echelons of senior executives, or directors, will be poor predictors of performance because the CEO will have the greatest power and influence on the decision making process (Hambrick, 2007). On the other hand, agency theory addresses managerial discretion by highlighting the importance of board independence and CEO duality, stating that the role of the CEO and chairman should remain separate so that no one individual should have 'unfettered powers of decision' (Financial Reporting Council, 2014). Therefore, by integrating upper echelons and agency theories, upper echelons characteristics will provide great predictions of organisational outcomes when there is no CEO duality and when at least half of the board of directors consists of independent NEDs. This eliminates issues of power and status, and proposes that the organisational outcomes such as board effectiveness and firm performance can be determined by the collective and individual behaviours of all the directors (Reyner, 2010). Hillman et al. (2000) state that the most visible differences amongst directors are in their occupational attributes which include age and expertise. Further to this, Nielsen and Nielsen (2013) observe that inconsistent findings in upper echelons literature may be due to the omission of important contextual variables. Therefore, our study explores this gap in literature by combining agency and upper echelons theories to propose that NEDs experience and NEDs age can be used as appropriate proxies of and, prerequisites of board effectiveness. This is discussed in more detail in the following sections.

4. Propositions

4.1 Non-Executive Director's Age

Hambrick and Mason's (1984) upper echelons perspective proposes that age is one of the demographic variables that can be used as a proxy of senior executives' psychological attributes that influence decision-making and performance. Furthermore, Mudambi and Treichel (2005) state that age can also be viewed as a proxy for experience, as older directors are assumed to have greater experience than younger directors. The age of directors on a board is also seen as an important factor of board composition and Gilpatrick (2000) argues that the ideal NEDs to have on a board are older and mature retired executives who tend to have more experience. However, Mahadeo, Soobaroyen and Hanuman (2012) state a more effective board should be diverse in terms of age for the following reasons:

- older directors provide greater expertise, experience and potentially have a bigger network
- middle-aged directors are more suitable for the day to day running of the firm and the major executive duties

- younger directors can bring new, creative and innovative ideas.

Age as a variable can represent differences in skills, attitudes, personalities, values and traits of individuals (Ferrero-Ferrero, Fernandez-Izquierdo & Munoz-Torres, 2015). Scholars argue that these differences can be categorized into generations because the social and historical experiences from a given generation have influenced the individuals' behaviours (Sullivan et al. 2009; Twenge et al. 2010). The general consensus amongst scholars about the four major generations of the 20th century is as follows: The Greatest Generation (born 1922-1945), Boomers (born 1946-1964), Xers (born 1965-1983) and Generation Y (born 1984-2002) (Sullivan et al. 2009; Twenge et al. 2010; Ferrero-Ferrero et al. 2015).

Twenge et al. (2010) argue that members of the greatest generation age group are self-disciplined and extremely loyal employees who believe in traditional values. The boomers believe that hard work leads to success; they value independent thinking and have extrinsic measures of career success (Twenge et al. 2010). Xers are said to be influenced by financial, family and societal insecurities that dominated their childhoods and although they lack solid traditions, they are more flexible and highly accustomed to rapid change (Ferrero-Ferrero et al. 2015). Twenge et al. (2010) state that the characteristics of Generation Y members are less clear but because they grew up with the internet, they are innovative and are more accustomed to gaining access to information quickly. The growth of technological and social change over the past several decades means that the generations currently in the workplace have had different life experiences, beliefs and values (Pitt-Catsouphes, Mirvis & Berzin, 2013). Kang, Cheng and Gray (2007) state that there is an active promotion of age diversity in boards because the experiences, skills and knowledge of different age groups can improve the overall knowledge and effectiveness of the board. Age related differences in teams could also benefit companies by providing a greater diversity of skills and multiple perspectives (Hertel et al., 2013). Mudambi and Treichel (2005) state that younger directors are assumed to have better understanding on key aspects of today's economy such as technology, markets and business metrics. Research by Barker and Mueller (2002) found CEO age was positively associated with research and development spending in firms. They further conclude younger CEOs tend to be more risk seeking and increase spending on research and development costs because their career and financial security concerns have a longer time horizon (Barker & Mueller, 2002).

Hambrick and Mason (1984) state that one of the most enduring findings about senior executives' age is that older managers or executives tend to be more conservative, follow lower growth strategies and are more risk averse. This is consistent with the work of Zhihua (2010) who observes that older directors tend to be more conservative making them more risk averse than younger managers, and more likely to comply with all the rules and routines of the firm. Therefore, older directors are expected to resist major changes in their organizations in order to maintain the status quo and a study by Frosch (2011) showed a positive relationship between the average age of employees and innovation. An earlier study by Child (1974) suggests older executives may have greater difficulty in grasping new ideas because they have fewer physical attributes needed to implement organizational changes.

In addition, Barker and Mueller (2002) argue older CEOs and executives tend to focus more on goals that benefit them in the short term, as they would soon be reaching retirement age. Older directors are generally at a point in life where financial security and career security are of greater importance, therefore any risky actions which may have an adverse effect on their security are avoided (Zhihua, 2010). This view is consistent with agency theory that proposes that agents do not always act in the best interests of shareholders but rather seek to maximise their own wealth (Hillman & Dalziel, 2003).

Over the past years, researchers have examined age by looking at older workers and generational differences in the workplace; however, the results have been inconclusive, as many empirical studies have only considered age as a control variable (Hertel et al., 2013; de Lange et al., 2010). In addition, Shore et al. (2009) state research on age diversity is much less developed than research on race and gender, suggesting that the potential effects of age diversity on performance have not yet been fully established. Mahadeo et al. (2012) found positive effects of age diversity on firm performance whilst, Zimmerman (2008) found no significant effects. Kilduff, Angelmar and Mehra (2000) examined 35 simulated firms with a total of 159 managers and found significant evidence to suggest that age diversity of team members positively affects firm performance. The arguments for age heterogeneity and homogeneity on boards are inconclusive as issues on generational gaps can also impact board effectiveness, hence further research must be conducted (Kang et al. 2007). However, Harrison and Klein (2007) argue that age variety or diversity broadens the cognitive and behavioural repertoire of the board, which leads to better decision-making, effectiveness and ultimately improves performance. Consequently, we propose the following:

Proposition: *The age diversity of Non-executive directors enhances board effectiveness and is positively associated with firm performance*

4.2 Non-Executive Directors' Experience

Carpenter and Westphal (2001) suggest that research on corporate governance and board effectiveness can be advanced by going beyond an emphasis on the board's propensity to exercise control over decision-making. They suggest this line of research should have a broader scope and examine whether directors possess relevant skills and experiences that enable them to effectively exercise control and monitor management. In line with this, Kroll, Walters and Wright (2008) propose that board effectiveness can be explained in part through the possession of suitable knowledge gained from directors' experience. Therefore, boards of directors who do not have relevant experience may be incapable of fully contributing to the strategic decision making of a firm (Kroll et al., 2008). From an agency theory perspective, directors with suitable knowledge gained through experience will not only be better monitors, but will also be useful advisors to top managers (Hillman & Dalziel, 2003). Furthermore, upper echelons scholars suggest that senior executives carry essential and unique skills that are displayed through their perceptions and beliefs, and these perceptions and beliefs are ultimately based on their experiences (Nielsen & Nielsen, 2013).

Although agency and upper echelons theories all emphasize the importance of experience in board effectiveness and decision-making, existing studies on the impact of director experience and performance have produced mixed results. Previous studies in management literature have examined the impact of director experience on different aspects of firm performance. For instance, a study by Fich (2005) revealed that shareholders react positively to the appointment of NEDs with past CEO experience in other firms. Whereas Gray and Nowland (2013) found that both the depth and breadth of directors' prior experience is valued by the market at the time of the directors' appointment. Hillman and Dalziel (2003) propose that greater experience can enhance a director's ability to monitor firm performance and provide advice to the organization. In agreement with this notion, a study by Westphal and Milton (2000) found that directors with professional experience were able to understand business situations more effectively and made better acquisition decisions. Gray and Nowland (2013) recognise that experience and expertise are essential for an effective board because directors are required to perform numerous complex tasks that need skill and expertise. Although prior business experience and expertise in areas such as accounting, finance and law help directors in effectively performing their duties, Gray and Nowland (2013) argue that prior experience as a director is the most relevant experience that directors can possess. Various scholars have argued that an individual's previous career experiences shape and influence their decision making process through the knowledge gained from their experiences (Sorensen, 1999; Beckman, 2006). Therefore, director's professional knowledge in industry and management should be beneficial to the quality of their decision-making and contribute to corporate competitive advantage, which ultimately leads to increased performance and effectiveness (Gray & Nowland, 2013).

An interesting proposition was brought forward by Li and Ang (2000), who suggested directors with specialized skills or those with good reputations are needed to provide advice when the board has to make major decisions. Such directors do not need to attend to all routine business decisions but add value in special situations. This is evident in the case of Kroll et al. (2008) who found that directors with prior experience made better acquisition decisions and exerted more influence on the board. This notion differs from that of Nielsen and Nielsen (2013) who found that industry experience of executives had no effect on decision-making and financial performance. However, Thorsell and Isaksson (2014) note that previous research may have produced mixed findings on the influence of directors' experience on firm performance due to issues of measurability and a shortage of available data. Kroll et al. (2008) defined director experience as the number of years a director has been a manager or board member of a firm within the same industry; whilst Certo et al. (2001) define director experience as the number of cross directorships a board member has held. Other scholars such as Kang et al. (2007) and Bodnaruk et al. (2008) used age as a proxy for director experience suggesting that older directors should have more experience than younger directors. For that reason, it is important to define the term director experience when providing experience, expertise and skills as a proxy for board effectiveness.

The prior experience of directors is useful for learning and developing skills of how to be a director and furthermore, developing an appreciation of the role (Westphal & Milton, 2000). The role of a director goes beyond reading financial statements and involves absorbing comprehensively large amounts of complex information quickly, evaluating the actions of management and, how these actions impact the firm (Khanna et al., 2014). Therefore, when directors have prior experience at senior levels in a firm, the human capital they develop should be invaluable as they should be more effective in providing strategic advice (Khanna et al., 2014). In addition to this, Fich (2005) argues that directors with previous experience of being a director provide unique expertise and are of greater value than directors of other occupations or positions. Directors with such experience are expected to produce high-quality outcomes through their pool of knowledge, skills and connections (Conger, Lawler & Finegold, 2002). External connections developed through previous board appointments and industry experiences represent valuable capital as such connections provide access to vital resources (Hillman, 2005). Upper echelons theorists propose that managerial (in this case directors') inclinations, strategic choices and decisions are explained by the directors' pre-existing knowledge systems and skills. These knowledge systems and repertoire of skills are primarily derived from prior professional experience (Bailey & Helfat, 2003; Kor, 2003; Kor & Sundaramurthy, 2008). Therefore, directors' current and past professional experiences as board members or as senior executives can be a strong indicator of their human capital (Certo, 2003). The main benefit of directors with senior level experience is that they provide the unique resource of direct experience, which indicates greater intelligence and effectiveness (Khanna et al., 2014). Taken together, the arguments presented above suggest that the previous appointments of NEDs are a suitable proxy for experience; therefore, we suggest the following propositions:

Proposition: *The prior experience of Non-executive directors enhances board effectiveness and is positively associated with firm performance*

5. Conclusion

This paper builds propositions that move beyond NEDs independence as the conventional proxy of board effectiveness. Although our proxies are not exhaustive, in this paper we propose that the age diversity and prior experience of NEDs are better indicators of board effectiveness. Our paper addresses the gap in literature by focusing more on NEDs competencies, skills and capabilities that enable them to effectively perform their monitoring and strategic roles. In addition, our conceptual framework suggests that board effectiveness should increase firm performance (Brennan, 2006). As a result, the characteristics of the board of directors have a direct effect on both firm performance and board effectiveness. From a theoretical perspective, our study contributes to the extant literature by integrating agency and upper echelons theories to offer a more holistic framework that focuses on directors' capabilities. The next part of this study will collect relevant data and test these propositions to validate the arguments put forward. Future work may also explore experience as a multi-faceted variable as various types of experience may have a different impact on performance.

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