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CHANGES IN STRUCTURE OF BOARD OF DIRECTORS OF NEW VENTURES: A MULTI-THEORETIC APPROACH (SUMMARY)

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SUMMARY

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Principal Topic

Studies on the board of director’s composition and their effect on the performance of the firm have followed three major trends (agency theory, stewardship theory, and resource dependency theory). Research has been inconclusive on these theories. Using the extant theories on BOD I believe that the changes in BOD composition can be explained through the stewardship theory, agency theory and resource dependence theory.

Method

Data was collected on the companies using Hoover’s Boneyard Index for the companies that did not survive and then finding a company that is similar but survived. Information on composition of the directors was collected at IPO, bankruptcy time and now, and a t test was run to see if the hypotheses carry out.

Results and Implications

At IPO, there were no significant differences between the bankrupt firms and the successful firms in terms of the size of the board of directors and, the proportion of outsiders and insiders on the board of directors. The amount of shares owned by the CEO and by the chairman don’t seem to vary based on the type of firm that is bankrupt as against successful.

At the point of bankruptcy changes are noted in the composition of the board of directors. The bankrupt companies show a smaller board size in comparison to the surviving companies. The ones that do become bankrupt also have a greater amount of insiders in their board composition in comparison to their similar in industry surviving counterparts. Thus, these bankrupt companies also had a smaller proportion of outsiders in the board composition than the surviving companies.

No effect of ownership was noted in this study. This means that the amount of share ownership by the chairman or the CEO did not play a direct role on the survival of the companies that we were studying.

The managerial implications of this are that, now managers will know what the BOD should look like. This is a multi-theoretical approach that looks at all the theories and judges when each is appropriate. Such knowledge will lead to a better performing organization.

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