ABSTRACT

Research related to the relationship between boards of directors and corporate financial performance has received increasing prominence within the field of corporate governance yet findings are frequently ambiguous and often contradictory. We believe the reflection of uncertainty emanating from the literature is a result of the limited number of performance measurement points (MPs) used in the investigations. In this paper we provide a brief historical overview of corporate boards, shareholder concerns, and related academic research. We identify seven board characteristics that consistently appear in the literature and propose a set of performance measurement points that may clarify the relationship between these and corporate financial performance.

Keywords: Corporate Boards, Corporate Performance, Directors

1. INTRODUCTION

Early in the last century the majority of large corporations were owned and controlled by a small number of capitalists. Over time the vast stockholdings of these giants of industry were dispersed to many beneficiaries (Mizruchi, 1983). Since the beneficiaries were generally uninvolved in organizational management, corporate control slowly passed to insiders with specialized expertise. This separation of corporate ownership from corporate management created the potential for fiduciary lapses and conflicts of interest between management and shareholders. From a shareholder’s perspective, fiduciary lapses occur when management makes self-serving decisions that do not consider the effect on other stakeholders. Shareholders depend upon corporate boards as a governance mechanism to minimize the frequency and magnitude of these lapses. However, the desire, ability, and/or effectiveness of boards in achieving this objective have been questioned for a very long time. Over seventy-five years ago Berle and Means (1932) in their work “The Modern Corporation and Private Property,” detailed the inherent problems associated with sundering decision-making from corporate ownership. They believed that directors would function as part of management rather than as an independent oversight mechanism thus shareholder interests would remain either unrepresented or underrepresented. Three quarters of a century later poorly conceived decisions and weak board oversight have resulted in lackluster financial performance of large corporations. General Motors Corp. insisted that Americans wanted and would continue to buy large vehicles. The decision
was made to focus in this area and it led to major losses and a downgraded credit rating (2005). Other corporate missteps led to performance problems, including: Hewlett Packard (board misconduct, 2005); Dell, Inc. (delayed earnings reports, 2007 and 2006); Krispe Kreme (restated earnings, 2006); and AMD (lower than expected earnings, 2006). These results most likely leaves many investors, employees, and others wondering about the value of their corporate boards.

Thirty years ago, management researchers, such as William Boulton (1978) concluded that boards of directors have not evolved beyond a cursory governance oversight mechanism. Shareholders and other stakeholders may have expected more but boards have primarily served as a “rubber-stamp” approval for executive decisions and actions (Boulton, 1978). Slightly more than two decades ago subtle changes in corporate oversight began. Early in the 1980s, frustrated by the refusal of boards to challenge management decisions, investors began to insist on changes to corporate governance. They believed if corporate boards were to be part of the solution rather than part of the problem they must be more engaged in the oversight role (Westphal and Khanna, 2003).

Boards should expect continuous pressure to become assertive and exercise proactive oversight of executive management including the separation of the positions of CEO and Board Chair (Levy, 1993). Much of this pressure will come from large block shareholders, typically defined as those holding a minimum of 5% of a corporation’s outstanding stock (Coles, et al., 2001). For example institutional investors such as the California Public Employees Retirement System (CalPERS) frequently become large-bloc shareholders and as such they command the attention of boards and they are able to closely monitor performance and exert significant pressure over corporate decision-making. However, the powerful influence of large bloc shareholders is not shared by a vast majority of shareholders since the ownership configuration of most U.S. firms is diffuse, that is a large number of investors holding a small number of shares, (Wright, et al., 2002a). In other words, the majority of shareholders have little direct influence over corporate boards yet they are dependent upon them to represent and protect their interests (Lorsch and MacIver, 1989). Frequently, these expectations have been met with disappointing results (Bainbridge, 1993; Baysinger and Hoskisson, 1990) and in extreme cases, total corporate collapse such as Enron and WorldCom.

For many years there has been an uninterrupted steam of scholarly research into the relationship between corporate performance and boards of directors (Farna and Jensen, 1983). Regrettably, many of these studies have yielded equivocal results (Dalton, et al., 1998). Over the last several decades investigators have examined the relationship between corporate performance and board characteristics. It is widely accepted that boards of directors have the legal capacity to oversee management as a method of safeguarding a corporation’s reputation and financial assets. However, some boards appear more effective than others and there is an abundance of literature investigating if and/or how board characteristics may influence this phenomenon. Unfortunately, many of these studies have resulted in ambiguous or contradictory findings, and in some cases no significant relationship between performance and board attributes was discovered. For example, (Dalton, et al., 1998) conducted an extensive meta-analysis involving 54 empirical studies comparing board composition to financial performance and 31 empirical studies comparing leadership structure to financial performance they found no significant relationship in either.
Further, they indicated that there was little evidence to support either the agency theory (as it relates to the need for independent oversight) or the stewardship theory (as it relates to the value of internal directors).

Several earlier studies revealed findings similar to those of the Dalton team (1998). For example, Barnhardt, Marr, & Rosenstein (1994) also concluded there is little evidence to suggest an identifiably significant relationship between board composition and the level of overall firm performance. Kesner & Johnson (1990) discovered that while boards comprised of a greater proportion of inside directors tended to be involved in more fiduciary-failure lawsuits, this difference was essentially nullified when factoring the outcome of those lawsuits. It would appear that the mere appearance of impropriety was a stimulus for the lawsuits. Studies by Kesner, Victor, & Lamont, (1986) and Zahra & Stanton, (1988) also failed to find a significant relationship between board composition and performance. Perhaps it was the combination of their findings and those of earlier studies that lead the Dalton team to go so far as to suggest that further study in the area of board composition/financial performance and board leadership structure/financial performance would be fruitless (Dalton, et al., 1998).

Interestingly, approximately one year after suggesting further studies of board composition and financial performance might be inadvisable; the Dalton team conducted another meta-analysis examining the relationship of the number of directors to financial performance (Dalton, et al., 1999). The second Dalton study differentiated board size from board composition and found a positive relationship between financial performance and board size using both market-based and accounting based firm performance measures.

In sharp contrast to researchers failing to identify a relationship between board characteristics and corporate performance there are other studies that have yielded results suggesting a positive relationship. For example, strong financial performance can be associated with proactive boards (Pearce and Zahra, 1991; Sterns and Mizruchi, 1993). Greenmail, a private repurchase of company stock at a premium from a stockholder representing a potential threat to management, is significantly reduced when a board is composed of a greater number of outside directors with executive experience (Kosnick, 1987). Firms with financial statement fraud have been found to have corporate boards with a higher percentage of inside directors. Beasley (1996) found in a study of 150 firms, 75 with fraudulent financial statement issues and 75 without incidence of financial statement fraud, that the no-fraud firms had a higher percentage of outside directors to inside directors. A study by Beekes, et al. (2004) found behavioral difference between inside and outside directors with respect publicly acknowledging bad news relating to corporate earnings. Beekes et al. concluded that a higher proportion of outside to inside directors reporting, especially during tough financial times for corporations, enhances quality of financial. McWilliams and Sen (1997) discovered that when a company engages in activities to avert a hostile takeover, the stock price is adversely affected when the board is dominated by inside directors. Finally, aggressive corporate expansion through acquisitions has been linked to increasing executive compensation packages approved by corporate directors (Tosi and Gomez-Mejia, 1989; Wright, et al., 2002b) but this type of expansion frequently fails to yield positive financial results for the corporation (Porter, 1987). In other words, if executive compensation increases are linked to expansion, while shareholder wealth decreases, corporate boards have
permitted the interest of management to trump the interest of shareholders (Hayward and Hambrick, 1997).

1.1 BOARD CHARACTERISTICS:

A vast number of studies investigating the relationship between boards of directors and corporate performance have divided boards into one or more of the following categories of characteristics.

(1) Proportion of inside to outside directors may influence decision-making (Beeks, et al., 2004; Cochran, et al., 1985; Daily and Dalton, 1994; Dalton and Kesner, 1987; Hermalin and Weisbach, 1988; Kesner and Johnson, 1990; Levy, 1993; Sheppard, 1994; Shivdasani and Yemack, 1999). The debate between those who believe that organizations benefit as the number of outside directors increase relative to inside directors is based in large part on the debate between agency theory and stewardship theory. Agency theory suggests that a board should possess a significant degree of independence from executive management in order to ensure the appropriate checks and balances with regard to management decision-making (Byrd & Mizruchi, 2005, Cochran, et al., 1985; Dalton, et al., 1998; Kesner and Johnson, 1990; Kosnick, 1987; Levy, 1993; McWilliams and Sen, 1997; Pearce and Zahra, 1991). Conversely, stewardship theory, argues that inside directors have a stronger knowledge of the organization’s strengths and weakness and a better understanding of its competitive opportunities and threats than part-time, outside directors. Stewardship theory assumes that executive managers are able to function effectively as corporate directors not only because they are competent but also because they are fundamentally honorable and ethical and will act in the best interest of all the company stakeholders (Davis, et al., 1997; Donaldson and Davis, 1991; Muth and Donaldson, 1998). (For an overview on agency theory relative to stewardship theory, please see Eisenhardt, 1988).

(2) CEO and COB duality is an area of concern for some corporate stakeholders (Daily and Dalton, 1994; Levy, 1993; McWilliams and Sen, 1997). Some stakeholders argue that independent and objective oversight of management decision-making is improved when the positions of chief executive officer (CEO) board chair (COB) are separated. It is believed that when the CEO is also the COB, too much power is bestowed on one individual. This individual may have the ability to overpower other directors to such and extent that they will be unable to provide objective oversight (Dalton and Kesner, 1987; Kesner and Johnson, 1990; Levy, 1993).

(3) Occupation/professional expertise of outside directors is likely to influence board decision-making (Carpenter and Westphal, 2001; Kesner, 1988; Kosnick, 1987; Sterns and Mizruchi, 1993). Some stakeholders believe that boards will benefit when they are skewed toward individuals with a wide range of professional expertise. Others, however believe that governance oversight is enhanced when board members possess a harmonious range of highly focused knowledge, skills, and abilities (Pearce and Zahra, 1991). It is generally assumed that board members will contribute to the extent of their individual talent, knowledge and experience but some studies suggest that boards dominated by individuals with similar expertise, such as banking, will tend to walk in lockstep and influence financial performance differently than boards comprised of diverse professional experience (Byrd and Mizruchi, 2005; Van der Walt, et al., 2006). A homogeneous board comprised of too many individuals with similar professional knowledge could stifle “out of the box thinking” and reinforce a type of “idea-inbreeding.” Some
studies suggest that strong boards are those comprised of expertise-balanced and assertive members (Byrd and Mizruchi, 2005; Dalton, et al., 1999; Kesner, 1988; Pearce and Zahra, 1991).

(4) Average age of the board of directors may affect decision-making. While this topic can be easily found in the popular press, theoretical and empirical literature investigating the relationship between the average age of boards and their corporate financial performance is relatively small. However, a study by Rose (2005), presents a compelling reason to pursue this line of investigation. The study compared the relationship of corporate performance to board size, proportion of insiders on the board, average age of board members, and professional expertise of board members. It was discovered that only average age of corporate boards had a significant impact on performance. Rose (2005) found that older boards under-perform younger boards and suggested that younger people may be more innovative.

(5) Director’s tenure may be suggestive of the degree of independence by board members (Kesner, 1988; Kosnick, 1990; Shivdasani and Yemack, 1999). Some researchers believe that the willingness and ability to influence board decision-making is related to the length of time he or she has served on the board (Carpenter and Westphal, 2001; Kesner, 1988; Shivdasani and Yemack, 1999; Westphal and Khanna, 2003). Tenure investigations include the assessment as to whether directors were elected before or after the hiring of the current CEO if the CEO is also Board Chair (COB). The assumption is that individual board members engaged by the corporation before the CEO/COB was hired may have a tendency to be more independent than those who became board members afterward (Dalton, et al., 1998).

(6) Large bloc shareholders/institutional investors as board members may influence boards to be more proactive and act differently that those without these investors (Van der Walt, et al., 2006). Corporate monitoring and financial performance is likely to be altered by the presence of institutional investors on the board and certainly the issue is receiving wider attention in the literature (Macey, 1997). The assumption is, of course, that large bloc institutional investors will be able to command attention by the other board members as well as the CEO/COB. The question however, is not so much as to whether institutional investors influence decision-making but rather if it can be associated with positive or negative corporate financial performance.

(7) Board size has been considered by many as an important area of investigation (Dalton, et al., 1999; Mayer, et al., 1997; Pearce and Zahra, 1991; Rose, 2005). The question pertains to whether a larger board is more effective than a smaller board or vice versa. Some analysts believe that boards with a small number of members may lack sufficient diversity of experience and breadth of knowledge to be effective. On the other hand, expansive boards with large numbers of members may hit a critical mass and become bogged in bureaucracy therein losing the ability to respond to issues surrounding corporate threats and/or opportunities (Mayer, et al., 1997; Pearce and Zahra, 1991).

Unfortunately, a majority of these studies used a limited number of performance assessment categories. In some cases, board characteristics were compared to as few as two measurement points (MPs). This limitation may result in a myopic view thus raising the risk of missing subtle yet important differences. Waddock & Graves (1997) reported the risks
associated with measurement point limitations suggesting that it can shadow or completely hide crucial information. Increasing the measurement points increases the potential for new knowledge. This idea has not been lost on financial analysts who generally agree that relying on only one or two accounting or market related measures can result in a misinterpretation of corporate financial performance (Ittner, et al., 1997; Wright, et al., 2002a).

2. THE SOLUTION

We propose that studies investigating the relationship between board characteristics and corporate financial performance can be strengthened through the use of multiple MPs. In preparing a recommended set of financial measures that would enable a comprehensive analysis of financial performance, we searched the literature for frequently used measures. While many individual studies relied on one or two MPs the combination of studies revealed eleven categories for holistically investigating corporate financial performance. These MPs range from measuring growth, liquidity and profitability to assessing asset utilization, leverage management, and shareholder returns. Studies by Beekes, Pope, & Young (2004); Byrd & Mizruchi (2003); Brush, Bromiley, & Hendrickx (2000); Ittner, Larcker, & Rajan (1997); Beasley (1996); Brown & Perry (1994); Daily & Dalton, (1994); and Kaplan (1994) are pylons for our proposal of financial measurement points.

Any study relying on financial measures can be subject to justifiable criticism that they are prone to error and bias. The popular press has been a steadfast reminder of these problems. However, while the accuracy of accounting data is never absolutely guaranteed, confidence in available data has increased with the Congressional pressure on the Big Four accounting firms, the efforts of the Financial Accounting Standards Board, the implementation of the Sarbanes-Oxley Act of 2002, the toughening demeanor of the Securities Exchange Commission, the proactive mentality of many states attorneys general such as New York States former AG Eliot Spitzer, and the Public Company Accounting Oversight Board (PCAOB), (Phillips, 2007). Confidence can be further strengthened by the coalescence of accounting and market measures. This combination matches the values of accounting data to the assessments of external analysts and other decision-makers offering an additional measure of assurance.

Our proposed model involves comparing the board characteristics identified from the board/corporate performance literature to a refined version of the eleven MPs isolated from the decision-making/corporate performance literature. The eleven MPs have been dichotomized into those that are (I) accounting related and (II) market related. In combination these measure growth rates, leverage (debt) management, asset management, cash flow management, profitability, and shareholder returns. The accounting measures used in conjunction with the market measures offers the opportunity for a holistic assessment of performance as well as a range of MPs for identifying specific board characteristics that can be associated with corporate results.

The accounting related measures include (1) debt to total assets; (2) rate of revenue growth; (3) rate of net income growth; (4) return on assets; (5) return on equity; (6) relative liquidity; and (7) relative cash flow; and (8) basic earnings per share. Market measures proposed include: (9) growth in stock price; (10) market price to book value of stock; and (11) market
price to the relative earnings per share of stock. Each of these is measured in its rate and direction of change rather than in absolute terms.

We chose not to use of Tobin’s q, a well-worn technique (Brush, et al., 2000; Hermalin and Weisbach, 1992; McConnell and Servaes, 1990; McGahan, 1999) for comparing the implied value of a company assigned by financial markets to the replacement value of its assets. The measure was developed by James Tobin (Tobin, 1969) and has been used extensively by analysts. However, there are a number of problems with Tobin’s q including the fact that it has multiple interpretations and that a key component in the equation, replacement worth of assets, involves an imprecise assumption of its numerical value (Barnhart, et al., 1994). We also chose not to include dividend analyses since dividend declaration can be an arbitrary act by the board of directors’ unrelated to financial performance. For example, there are some companies that choose to pay a stock dividend even though the corporation is losing money.

We selected the following measurement points (MPs) because of they based in the literature, imply reasonable objectivity, represent a gamut of performance areas, and possess the quality of verifiability.

(1) Debt to total assets is a measure of the extent a firm relies on creditor financing. Debt, commonly referred to as financial leverage, when used appropriately can increase the strength of a firm’s financial performance, however as a firm’s financial leverage increases so does the potential for weakening future performance (Perry and Shivdasani, 2005). Increasing leverages are frequently harbingers to poor financial performances (Jensen, 1989; Ofek, 1993). We referenced literature by Byrd & Mizruchi, (2005); Waddock & Graves, (1997); Daily & Dalton, (1994); and Stearns, (1986) all of which used debt to assets measures.

(2) Rate of revenue growth is a measure of the extent to which a firm’s strategic marketing initiatives are effective. Price changes, whether increasing or decreasing, are related to product/service quality and marketing effectiveness. For retail companies, expanding the number of products, services, or locations can also be part of the overall corporate strategy. Regardless of the industry however, generally an increasing number is desirable. Our literature review revealed revenue growth analyses studies by Waddock & Graves, (1997); Ittner, Larcker, & Rajan, (1997); Brown & Perry, (1994); and Kaplan, (1994); and Shepperd, (1994).

(3) Rate of net income growth is one of several methods for measuring a company’s ability to price it products and services appropriately, manage its cost effectively and satisfy its customers and other stakeholders. Generally, an increasing is not only desirable but also an indication that the strategic management processes are effective. We included this measure after referring to studies by Beekes, et al. (2004); Ittner, Larcker, & Rajan, (1997); Waddock & Graves, (1997); Daily & Dalton, (1994); Shepperd, (1994); Hermalin & Weisbach, (1988); Ullmann, (1985).

(4) Return on assets is a measure of how much profit is being returned for each dollar (or other currency unit) that has been invested in assets. In the merchandising and manufacturing industries this is a particularly important measure of the strategic effectiveness of asset investments. Generally, an increasing number is desirable. Our referenced literature revealed
that this was used in studies by Byrd & Mizruchi, 2005; Rose, 2005; Muth & Donaldson, 1998; Ittner, Larcker, & Rajan, 1997; Waddock & Graves, 1997; Brown & Perry, 1994; Kaplan, 1994; Stearns, 1986; and Ullmann, 1985.

(5) Return on equity is a measure of effective the corporation has been in earning a profit for each dollar (or other currency) invested by stockholders. This is a fundamental component in contributing to shareholder wealth and has an indirect influence on the market price of the stock. Increases in stockholders equity generally occur in two ways: additional investment by stockholders and corporate earnings. An increase in stockholders equity through earnings is highly desirable. Our literature review showed that this measure was utilized by Byrd & Mizruchi, (2005); Beekes, et al. (2004), Muth & Donaldson, (1998); Shepperd, (1994); Itner, Larcker, & Rajan, (1997); Waddock & Graves, (1997); Hermalin & Weisbach, (1988); and Ullmann, (1985).

(6) Relative liquidity is a measure of how well the corporation is positioned to meet its current debt obligations. One common measure is the current ratio, which matches debts that are coming due to assets available to pay those obligations. Current ratios of less than 1 suggest that the corporation is not in a position to pay its debts as they become due and may be an indication of poor financial strategies. Since it is possible for almost any corporation to temporarily fall beneath the minimum threshold of this measure, it is important to examine the direction and percentage of change in this statistic. Our search discovered that this measure was used by Byrd & Mizruchi, (2005); Daily & Dalton, (1994); Sterns & Mizruchi, (1993); and Stearns, (1986). (Sterns and Mizruchi, 1993)

(7) Relative cash flow is a measure of the ability of a corporation to produce funds to sustain operations and growth. Accountants classify cash flow in three broad categories: cash flow from operating activities, investing activities, and financing activities. Each of these is important but strong cash flow from operating activities crucial to sustaining corporate growth while managing financial leverage. Our reference literature includes studies by Ittner, Larcker, & Rajan, (1997) and Ullmann, (1985) in which each relied on the performance measure.

(8) Earnings per share is a widely observed measure of the ability of a corporation to support the market value of its stock. There are a number of different methods of computing earnings per share including the use of pro forma earnings rather than actual earnings, the use of diluted shares, and the use of basic common shares. We prefer basic earning per share, which is generally computed by dividing the annual earnings available to common shareholders by the weighted average number of common shares outstanding. Earnings per share data are a requirement in the annual report of publicly traded corporations and comparison data requires companies to explain changes in capitalization that could confuse the year-to-year comparison. Generally, studies that investigate any aspect of corporate earnings will also analyze per share earnings. Beekes, et al. (2004), Ittner, Larcker, & Rajan, (1997), Waddock & Graves, (1997), Daily & Dalton, (1994), Shepperd, (1994), Hermalin & Weisbach, (1988), and Ullmann, (1985) each adopted this measure.

(9) Growth in stock price represents among other things, a potential monetary return to shareholders for their investment in the corporation. It is a potential return since the stock must
be sold to actually realize the return. Financial managers have been taught since their first corporate finance course that a fundamental objective of the profession is to maximize shareholder wealth and stock price growth is a key component in fulfilling this goal. Stockholders will frequently forgo dividends with the expectation that reinvested earnings will contribute to growing the market value of the stock. Our referenced literature indicates that Muth & Donaldson, (1998), Ittner, Larcker, & Rajan, (1997), and Kaplan, (1994) have all utilized stock price as a measure of financial performance.

(10) Market price to book value of stock on a per share basis is a measure of difference between the net real assets of a company and the market price of the stock. In general this can represent how the financial markets views the value of the company. It is frequently considered the degree of confidence that the financial markets place on the organizational assets, its ability to manage those assets, and its ability to achieve sustainable growth. Our literature review found that by McGahan, (1999) and Brown & Perry, (1994) relied on this measure.

(11) Market price of stock to the relative earnings per share of stock (price/earning ratio) is another measure of confidence in a corporation, its management, and its directors. In some ways it is thought to represent the market view of a corporations future potential. As the confidence level increases the price/earning ratio generally increases. It is possible, of course, for this number to rise to such a height that an unsustainable bubble of confidence has occurred representing for a rapid deflation in shareholder wealth. The price/earning ratio is also a measure of how relatively expensive a share of publicly traded stock is at any given point in time. To an extent a rising number can be desirable but it can also reflect a rising risk to an investor. This is a commonly used measured and it has been in studies by Beekes, et al., (2004) and Pearce & Zahra, (1991).

The eleven proposed measurement points are industry specific and it is difficult if not impossible to find meaningful information by comparing results between industries. A series of companies with similar NAICS and SIC codes should be selected. A time-series on each organization should be performed. The process involves computing the percentage and direction of change in each of the eleven MPs and comparing these to the seven board characteristics. This should be accomplished for a minimum of three fiscal periods for each of the companies being investigated. Comparisons within and between companies are then possible. (See table 1.0)

Previous research suggests that the 11 variables listed in Table 1 are instrumental in determining corporate performance. Initially, we would suggest regressing the independent variables on each of the dependent variables. However, with this method, the Type-I error rate would dramatically inflate. Alternatively, we could develop a single composite dependent variable. The independent variables could then be regressed on the composite dependent variable. Unfortunately, several of the measures use different scales and a composite measure would be difficult to calculate accurately. It may also be appropriate to develop two composite measures (accounting related and market related).

However, since several of the variables are highly correlated, a multivariate analysis of variance (MANOVA) may be appropriate. In order to conduct the analysis, each independent variable would need to be divided into groups. The MANOVA could be performed to test if the
main effect (board performance) was significant. Presuming an overall effect, univariate analysis of variance (ANOVA) could be completed to identify the significant independent variables. The ANOVAs would then be followed by Duncan’s range test to identify significant differences.

Suggestions for computation for each variable are available upon request (VanNessR@nycap.rr.com).

4. SUMMARY

In summary, the literature has provided decidedly little clarity to the issue surrounding boards of directors and corporate financial performance. New research may have been discouraged by the expanse of ambiguous and contradictory studies in this area. The enigmatic findings may be due to the focus on a limited number of individual measurements rather than the entire range of performance measures. Although no individual element in the board characteristics or in the measurement points is new, we have been unable to find any study that aggregated MPs for a holistic investigation of the relationship between board characteristics and corporate financial performance. We believe that our model can enhance board/performance studies by providing the opportunity to identify previously ignored areas of influence. We suggest the use of the proposed model to reinvestigate each of the seven board characteristics and their potential corporate financial performance.

The limitation of our model is related to the nature of financial measures in general. Financial measures can easily be prone to errors and misinterpretation. Further, no single performance measure by itself provides any significant meaning and the circumstances surrounding the PM can substantially alter its informational value. Performance measures need to be carefully observed over an adequate period of time and assessed in an appropriate context. When this is accomplished in a holistic manner as suggested in our model, a wealth of meaningful information will be revealed.
REFERENCES


Table 1.0 (Board Analysis Model)

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