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ARTICLE

Board of director's effectiveness and the stakeholder perspective of corporate governance: Do effective boards promote the interests of shareholders and stakeholders?

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Abstract This paper analyzes whether effective boards of directors in addressing shareholder interests also prove to be effective in guaranteeing the interests of the rest of the firm's stakeholders. We measure board effectiveness based on the shareholder perspective, and test whether it is valid for the stakeholder perspective. The novelty of this paper precisely lies in its approach, given that it considers both perspectives of corporate governance at a time. Using the transparency of sustainability reports as a proxy for the stakeholder perspective in an international sample of 2366 companies, the paper shows that effective boards are more likely to address the interests of both the shareholders and the rest of the firm's stakeholders. Furthermore, we propose a measure of board effectiveness by gathering several board characteristics. Our results contribute to research on corporate governance and corporate social responsibility reporting, and it has implications for policy makers.

Introduction

This paper analyzes whether boards of directors that are effective in addressing shareholder interests also prove to be effective in guaranteeing the interests of the rest of the firm's stakeholders. We propose a measure of board effectiveness based on the board characteristics that contribute to the protection of shareholder interests under the

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shareholder perspective of corporate governance and test its validity under the stakeholder perspective of the firm's corporate governance. According to Letza et al. (2004), the shareholder and stakeholder perspectives are the most relevant approaches for analyzing the firm's corporate governance. The former considers that the key aim of corporate governance is the protection of shareholder interests. The latter advocates that the main objective of corporate governance is to guarantee the interests of all of the firm's stakeholders. This approach extends the scope of corporate governance by considering shareholders as a type of stakeholder with rights equal to those held by the others (Money and Schepers, 2007).

The stakeholder perspective of corporate governance is strongly linked to corporate social responsibility (CSR) (Jamali et al., 2008). CSR aims to maximize ''...the creation of shared value for their owners/shareholders and for their other stakeholders and society at large'' (European Commission, 2011:6). Therefore, CSR contributes to the goal of corporate governance under the stakeholder perspective. The establishment of governance structures related to CSR, such as CSR committees and reporting, emphasizes the significant relationship between corporate governance and CSR (Money and Schepers, 2007). Even the growing literature on the topic highlights the crucial role of corporate governance mechanisms, especially boards of directors, in establishing CSR practices (Amran et al., 2014; Fernández Sánchez et al., 2011; García-Sánchez et al., 2015; Khan et al., 2013; Webb, 2004).

Boards are responsible for monitoring the management and providing it with strategic advice. Prior research on the effectiveness of boards in performing these tasks has mainly relied on the shareholder perspective (Finegold et al., 2007; John and Senbet, 1998; Kiel and Nicholson, 2003; Van den Berghe and Levrau, 2004). These papers conclude that several demographic characteristics of boards (e.g. independence, female directors, the separation of CEO and chairperson) determine board effectiveness in promoting shareholder value. In fact, most of them are suggested in Codes of Best Practices around the world. Conversely, research on board effectiveness under the stakeholder perspective is scarce. Several papers analyze the influence of board characteristics on CSR practices and reporting (Amran et al., 2014; Garcia-Sanchez et al., 2014; Lattemann et al., 2009; Mallin and Michelon, 2011; Prado-Lorenzo et al., 2009; Rodríguez-Ariza et al., 2014), without taking into account the effect of these board characteristics on the protection of shareholder interests. This paper contributes to filling this gap. It considers both perspectives of corporate governance and explores whether boards that are effective in guaranteeing shareholder interests, by means of increasing shareholder value, are also effective in responding to the interests of the rest of the stakeholders. The scope of corporate governance has broadened to consider all stakeholders (Letza et al., 2004), so it seems necessary to look into whether the effect of board effectiveness also extends to and guarantees the protection of all stakeholder interests.

To this end, we measured board effectiveness by gathering in a single variable those board characteristics that contribute to the aim of corporate governance under the shareholder perspective. To assess whether stakeholder interests are satisfied, we used the transparency of sustainability reports as proxy for the stakeholder perspective. The sustainability report is the tool most widely used by firms to disclose CSR information (Fernandez-Feijoo et al., 2014a). By means of providing transparent sustainability reports, firms satisfy the information interests of their stakeholders on CSR issues. We established a structural equation model to analyze whether board effectiveness under the shareholder perspective influences the stakeholder perspective of the firm's corporate governance. We tested our model in an international sample of 2366 firms throughout the period ranging from 2009 to 2012. We found that board effectiveness positively affects the transparency of sustainability reports. This result implies that the boards which are effective in addressing shareholder interests are also effective in protecting the interests of all the firm's stakeholders.

This paper makes several contributions to research on corporate governance as well as on CSR practices and reporting. It demonstrates that boards benefiting the shareholders also enhance CSR reporting and increase the firm's awareness on the needs of the rest of its stakeholders. It also responds to the call to improve the understanding of the determinants of board effectiveness (Van den Berghe and Levrau, 2004). We capture board effectiveness in a single variable and develop a quantifiable measure based on several demographic board characteristics. Our measure facilitates assessment and allows for a comparative analysis of board effectiveness for future research. Additionally, we demonstrate that the conceptualization and measurement of board effectiveness under the shareholder perspective maintains its validity under the stakeholder perspective of corporate governance. Finally, our results have implications for policy makers. Codes of Best Practice all over the world are suggesting many of the board characteristics driving board effectiveness based on the shareholder perspective. Including these recommendations not only helps to further protect shareholder interests, but it also guarantees the interests of the rest of stakeholders.

This paper is structured as follows. After this introduction, the following section reviews previous literature on board effectiveness and corporate governance perspectives to develop the hypothesis. The third section describes the methodology, while fourth section introduces and discusses our results. Finally, the last section presents the conclusions and limitations of the study and suggests further research.

Literature review and hypothesis development

Research on board effectiveness has mostly relied on classical theories of corporate governance, such as agency, stewardship and resource dependence theories (Finegold et al., 2007; John and Senbet, 1998; Kiel and Nicholson, 2003; Van den Berghe and Levrau, 2004). These theories fall under the shareholder perspective as they advocate that the aim of corporate governance mechanisms, including the board of directors, is to increase shareholder value and protect owner interests (Letza et al., 2004). Therefore, this line of research argues that board effectiveness depends on how well the boards perform their monitoring and strategic advisory roles (Adams et al., 2010; Forbes and Milliken,

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