The Impacts of the Board of Directors in a Company

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Abstract. It is acknowledged that the existence of the board of directors is essential. The board of directors is a group jointly appointed by all members of the company. It is responsible for supervising and managing the work of senior managers in the management of the company, to protect and realize the interests of shareholders. Therefore, the role of the board of directors deserves to be investigated. This paper will analyze several examples of board governance of UK listed companies, and use a small amount of data analysis to illustrate the positive and negative role of the board of directors in corporate governance.

Keywords: Financial, data analysis, corporate governance

1. Introduction

Nowadays, the board of directors is an important mechanism of corporate governance which connects the interests of managers and shareholders. (Aluchna, 2013). Besides, corporate governance is the rules and methods to make decisions on corporate affairs. And the board of directors is an important part of the structure of corporate governance. (Bebchuk, Cohen, and Ferrell, 2009) This essay will collect and analyze some examples of corporate governance to illustrate that the importance of the board of directors for corporate governance.

2. The role of the board of directors

The board of directors is the core of corporate governance. (Fei, 2010) As a group of individuals who supervise the firm’s activities, the board of directors has the right to make decisions on the company's strategies and objectives. (Cravens and Wallace, 2010) According to the annual report of Burberry, a large listed company in the UK, although the epidemic has harmed the development of the company, due to the reasonable goals and strategies adopted by the board of directors, all brands and products show a satisfactory trend, and the sales situation is better than expected.

2.1 finding the correct positioning and establishing a good corporate image.

After the market recovery, the company has wide investment space. Besides, Burberry's board of directors approved the policy for the next year which will strengthen ties with consumers through digital channels, take measures to reduce costs, enhance liquidity, and ensure that Burberry can respond to market changes when the epidemic starts to recover. In the future, Burberry will continue its current brand positioning strategy and build it into a "high-end luxury company with faster growth and stronger anti-interference ability". Burberry finally increased its pretax profit by 23% to £ 215 million compared with a year ago in 2010. On the contrary, Blippar, once a large listed company in the UK, failed to put the revenue-generating business in the first place because its board of directors was unable to formulate an exact strategy. At the same time, it abandoned the acquisition opportunities of Snap and other large companies to pursue profits. Hence, Blippar lost amounts of funds in the short term and finally declared bankruptcy in 2018. This is a typical example of a corporate governance failure caused by the board's decision-making mistakes. Therefore, the board of directors is the core of corporate governance and the correct decision of the board of directors is conducive to the development of the company, to the company finding the correct positioning and establishing a good corporate image.
2.2 making effective decisions to maximize the interests of shareholders

According to Fuhai and Honghua’s paper, as the core of corporate governance, board governance aims to realize the scientific decision-making of the board of directors and maximize the interests of stakeholders. Moreover, the board of directors can reflect the ability of corporate governance. There is an example that in the annual report of Hotel Chocolate Home, a British listed company, some governance principles and corresponding measures are mentioned in the part of corporate governance. This part declares that the governance structure of the company is supported by the matters reserved by the board of directors. Besides, to enable the board of directors to obtain enough information for the development of the company and make scientific decisions, the board of directors has adopted the authorization scheme which includes the establishment of a committee, annual agenda plan, regular business depth mining and good information flow. Furthermore, Hotel Chocolate Home’s Board meets regularly with investors and shareholders to consider how decisions will affect shareholders and whether decisions will benefit shareholders.

The annual meeting provides an opportunity for all shareholders to listen to the opinions of directors and raise questions that protect the interests of shareholders. Hence, the board of directors of hotel chocolate home not only protects shareholders' rights and interests but also enables the company to make reasonable decisions. The board of directors can make reasonable and effective decisions and maximize the interests of shareholders is the embodiment of corporate governance ability.

3. Disadvantages

The board of directors takes into account the long-term interests of the company and the interests of shareholders to ensure the effectiveness of corporate governance. (Walid, Noura, Khodr and Abdul-Nasser, 2018) However, the unreasonable composition of the board of directors will cause a lack of effectiveness in corporate governance and damage the interests of shareholders. Form a report by World Wide Web, a British listed company called Boots, announced a strategy that accords with the British corporate governance standards in August 2020 to further develop the company as well as adjust the structure of the board of directors, Stefano Pessina, the chief executive officer, has resigned and served as the executive chairman of the board of directors. The separation of the CEO from the two positions of executive chairman of the board of directors does not create confusion in the relationship of responsibilities and responsibilities and is beneficial to clarify the responsibilities of both sides, which is required by corporate governance. (Fosberg, 2011) Besides, Shareholders' interests can be reflected indirectly in the company's share price. Fox and Opong’s study provides some evidence for the impact of board composition changes on shareholders’ interests in the UK. In this study, Fox and Opong investigated the stock price changes of 941 UK listed companies and the board of directors of these companies made decisions to appoint, dismiss or retire members for the long-term interests of the company. Among the data, 51% of the company's board members were newly appointed, 22% of the company's board members resigned, and 17% of the company's board members retired.
The results show that when the board changes, board members are appointed or dismissed will lead to the rise of the company's stock. However, the resignation of the board members will lead to the decline of the company's stock. (Fox and Opong, 2010) The change of the board of directors affects the interests of shareholders of the British listed companies so that it can impact corporate governance. Therefore, the board of directors’ composition affects corporate governance.

4. Conclusion

In conclusion, the board of directors has significance for corporate governance. Because the board of directors has the decision-making power of the company and affects the interests of the company and shareholders through whether the decision is reasonable and effective, the board of directors is the core of corporate governance. Furthermore, corporate governance capability can be reflected in whether the board can make correct decisions and protect shareholders' interests and board governance is an important part of corporate governance. In addition, the composition of the board of directors will affect the effectiveness of corporate governance. Obviously, whether the management decision made by the board of directors is correct or not is likely to have a direct impact on the company's stock price. Hence, the board of directors is closely related to corporate governance and is an indispensable part of corporate governance.

Reference


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