How two-tier boards can be more effective

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Abstract

Purpose – *This study seeks to explore how non-executive directors address governance problems on Dutch two-tier boards. Within this board model, challenges might be particularly difficult to address due to the formal separation of management boards' decision-management from supervisory boards' decision-control roles.*

Design/methodology/approach – *Semi-structured interviews and a questionnaire among non-executive directors provide unique insights into three major challenges in the boardrooms of two-tier boards in The Netherlands.*

Findings – *The study indicates that non-executive directors mainly experience challenges in three areas: the ability to ask management critical questions, information asymmetries between the management and supervisory boards and the management of the relationship between individual executive and non-executive directors. The qualitative in-depth analysis reveals the complexity of the contributing factors to problems in the boardroom and the range of process and social interventions non-executive directors use to address boardroom issues with management and the organization of the board.*

Practical implications – *While policy makers have been largely occupied with the ''right'' board composition, the results highlight the importance of adequately addressing operational challenges in the boardroom. The results emphasize the importance of a better understanding of board processes and the need of non-executive directors to carefully manage relationships in and around the boardroom.*

Originality/value – *Whereas most studies have focussed on regulatory initiatives to improve the functioning of boards (e.g. the independence of the board), this study explores how non-executive directors attempt to enhance the effectiveness of boards on which they serve.*

Keywords The Netherlands, Board of directors, Boardroom effectiveness, Boardroom challenges, Boardroom independence, Non-executive directors, Boardroom dynamics, Boardroom interventions, Two-tier boards

Paper type Research paper

Introduction

Boards of directors play an important role in the governance of companies. By having the authority to remove executive directors, set CEO compensation and ratify major strategic decisions and financial statements, the board is a key internal mechanism to monitor and discipline management (Baysinger and Hoskisson, 1990; Johnson *et al.*, 1996; Neville, 2011; Oba *et al.*, 2010). The board of directors is deemed necessary as the separation of corporate control from corporate ownership potentially gives executive directors leeway to pursue their own interests at the expense of the owners of public corporations (Eisenhardt, 1989; Lan and Heracleous, 2010; Muth and Donaldson, 1998).

However, the global financial crisis and well-known international scandals such as Ahold, Enron, Parmalat and WorldCom have highlighted that even reputable boards may struggle to effectively monitor executive directors. The causes of failed supervision range from critical

information asymmetries on boards to the inability of non-executive directors to monitor powerful CEOs. Consequently, regulators and practitioners have promoted board independence in corporate governance codes and corporate legislation as a means to improve board control (Cormier *et al.* 2010; Daily *et al.*, 2003; Finegold *et al.*, 2007; Zattoni and Cuomo, 2010). Typical measures include discouraging CEO-chair duality, increasing the outsider ratio, and establishing board monitoring committees (Bezemer *et al.*, 2007; Westphal and Zajac, 1997).

While the effectiveness of board independence measures has been documented extensively in the literature, surprisingly little is known about the internal processes by which boards, and in particular non-executive directors, attempt to improve the monitoring potential of their boards. Prior research has shown the role and importance of regular boardroom evaluations in approving the effectiveness of boards of directors (Conger *et al.*, 1998; Long, 2006; Minichilli *et al.*, 2007). There is scant evidence, however, about the interventions non-executive directors use to actually solve emerging issues in the boardroom. For example, how do non-executive directors manage problems in the working relationship with executive directors? How do non-executive board members solve issues related to the flow of critical information from management to the board? And, how do non-executive directors ensure that management is sufficiently challenged during meetings?

This qualitative study explores these questions by investigating how non-executive directors on Dutch supervisory boards address key challenges in the boardroom. The study seeks to contribute to the literature in two ways. First, this research highlights that non-executive directors frequently experience challenges effectively asking management critical questions, information asymmetries and interpersonal working relationships with executive directors. An in-depth analysis of non-executive directors' interventions to address these three challenges can be categorised as: process interventions by non-executive directors such as establishing information protocols or more regularly putting items on the agenda of the board of directors and social interventions by non-executive directors such as challenging a culture that does not allow non-executive directors to ask management critical questions and by building trust in the working relationships with executives directors. The findings highlight the variety and complexity of board room challenges and non-executive directors' interventions addressing these challenges.

Second, by investigating boardroom challenges and interventions of non-executive directors in The Netherlands, the study provides a better understanding of the two-tier board model's monitoring potential. Examining boardroom challenges in this context seems particularly relevant as the separation of executive directors (i.e. the management board) from non-executive directors (i.e. the supervisory board) may complicate the interaction between executive and non-executive directors. The study's results indicate that non-executive directors indeed face several challenges that appear to be typical of the two-tier board model. Despite these challenges, non-executive directors emphasise in this study that they remain sceptical about the one-tier board's potential to solve boardroom issues associated with two-tier boards, suggesting that the origins of many boardroom challenges go beyond the choice of a certain board model to govern executive directors.

The remainder of this paper is organised as follows. Section two provides an overview of prior research on one-tier and two-tier boards. Section three describes the corporate governance context in The Netherlands, discusses the two-stage research design and details the study's data gathering process. Section four describes the three main challenges non-executive directors experience in the boardroom and pays particular attention to how non-executive directors address these issues. Section five discusses the empirical findings and their theoretical and practical implications.

One-tier and two-tier boards

Boards of directors operate in a variety of systems to monitor management. Whereas non-executive directors in the US, the UK and Japan operate in one-tier boards, non-executive directors in Germany, The Netherlands, China and Indonesia supervise executive directors in two-tier boards (Adams and Ferreira, 2007). Other countries such as Russia provide non-executive directors the opportunity to monitor management using hybrid board models, combining key characteristics of one-tier and two-tier boards. While one-tier boards integrate decision-management and decision-control in one organisational body, two-tier boards provide for a formal separation of both roles. In two-tier boards, executive directors (i.e. the management board) are responsible for the daily operations of the company and non-executive directors (i.e. the supervisory board) are responsible for the supervision of executive directors (Jungmann, 2006; Maassen, 1999; Millet-Reyes and Zhao, 2010).

Scholars have debated the comparative strengths and weaknesses of one-tier and two-tier boards. In essence, the main underlying difference between board models relates to the central question whether it is desirable to have independent monitors involved in decision-management. With fewer organisational layers, the one-tier model may create fewer information asymmetries and alleviate bureaucratic hurdles that may hamper the decision-making process of non-executive directors on two-tier boards (Hooghiemstra and Van Manen, 2004; Jungmann, 2006; Maassen, 1999). On the other hand, the structure of one-tier boards in which executive and non-executive directors operate on one board may jeopardize the board's ability to monitor executive directors and provide independent advice to management. Moreover, insider dominated boards might miss business opportunities, as independent outsiders may offer alternative views on environmental developments (Jungmann, 2006; Millet-Reyes and Zhao, 2010). Accordingly, proponents of the two-tier board model have emphasised the advantages of having non-executives involved in decision-control only.

Scholars and practitioners have not reached consensus on the monitoring potential of the board models (see for example Adams and Ferreira, 2007; Jungmann, 2006; Millet-Reyes and Zhao, 2010; Rose, 2005). Major corporate governance scandals have occurred in firms using one-tier and two-tier boards. Moreover, the literature suggests that boardroom problems exist in both board models, ranging from information asymmetries and dominant CEOs to group decision-making and other issues related to group dynamics (e.g. Conger and Lawler, 2009; Hooghiemstra and Van Manen, 2004; Maassen and Van Den Bosch, 1999; Pettigrew and McNulty, 1995). In this regard, Conger *et al.* (1998, p. 140) remark that all boards need ''knowledge, information, power, motivation and time'' to adequately execute their roles.

Whereas the literature suggests that non-executive directors on one-tier and two-tier boards may face multiple boardroom challenges, the separation of decision-management from decision-control in the two-tier board model may generate additional obstacles to non-executive directors to monitor management. Fewer joint meetings between executive and non-executive directors of two-tier boards compared to one-tier boards (Spencer Stuart, 2013) may make it more difficult for directors to build trust relationships, thereby potentially undermining the communication and flows of information between both boards. Furthermore, the absence of insider information may make it more difficult for non-executive directors on a supervisory board to fully understand and ratify strategic initiatives of the management board, thereby possibly frustrating decision-making processes. In addition, the distance of supervisory board members from the decision-making processes may make it more difficult for non-executive directors to provide resources to the firm, thereby missing value-creation opportunities. With this in mind, the

study explores boardroom challenges in the context of the Dutch two-tier board model. Specifically, the following three research questions are explored qualitatively:

1. What are the main boardroom challenges non-executive directors face on two-tier boards?

2. What are the factors contributing to the main boardroom challenges of non-executive directors on two-tier boards?

3. How do non-executive directors attempt to address boardroom challenges on two-tier boards?

Methodology

Research context

For decades it has been common for corporations in the Dutch governance system to operate a supervisory board, consisting solely of non-executive directors, next to a management board, consisting solely of executive directors. This structure is mandated by corporate law to balance the interests of stakeholders in the public corporation by formally separating decision-management from decision-control (Hooghiemstra and Van Manen, 2004; Maassen and Van Den Bosch, 1999). In the Dutch corporate governance code (2008, p. 19), the role of the supervisory board is defined as follows: ''to supervise the policies of the management board and the general affairs of the company and its affiliated enterprise, as well as to assist the management board by providing advice.'' The role of the management board is ''to manage the company, which means, among other things, that it is responsible for achieving the company's aims, the strategy and associated risk profile, the development of results and corporate social responsibility issues that are relevant to the enterprise. The management board is accountable for this to the supervisory board and to the general meeting'' (Dutch corporate governance code, 2008, p. 11).

Recently, the growing influence of foreign investors, the introduction of corporate governance (self-)regulatory initiatives in response to global scandals and heightened societal expectations have changed the work of supervisory boards and expectations of the effectiveness of two-tier boards in The Netherlands. In particular, the workload of non-executive directors on supervisory boards has increased as a result of the growing complexity of firms and their environments and the increased focus on compliance and control challenge the effectiveness of traditional two-tier boards (see Akkermans et al., 2007; Bezemer et al., 2012; De Jong et al. 2005, 2010; Hooghiemstra, 2012; Spencer Stuart, 2013; Van Ees et al., 2003 for more detailed descriptions of the Dutch corporate governance model).

Data collection and analysis

Given the dearth of research studies on director dynamics and boardroom challenges (Pye and Pettigrew, 2005; Pugliese et al., 2009; Van Ees et al., 2009), this study uses a qualitative approach. Qualitative techniques are particularly useful in exploring new phenomena, new variables and the boundaries of existing assumptions (Bansal, 2013; McNulty et al., 2013). The study uses multiple techniques during our observation period (2007-2012) to triangulate our data (Jick, 1979) and obtain a broad and comprehensive overview of challenges in the boardrooms of two-tier boards in The Netherlands. In broad terms, the study applies a two-stage approach (see Table I). During the first stage, the research team analysed eleven self-assessment reports of supervisory boards to create a list of boardroom challenges and subsequently used semi-structured interviews and a web-based questionnaire to identify the boardroom challenges that scored high on importance and occurrence. The self-assessments were conducted by a Dutch training institute for directors between 2007-2009 and the web-based questionnaire was sent to 143 alumni of the directors' training

Table I Two-stage research design used to explore boardroom challenges

Timing	Data type	Detail	Rationale
Stage 1 (2010)	Self-assessment reports	Review of 11 detailed self-assessment reports of supervisory boards in The Netherlands	Used to obtain an overview of problem areas that boards perceive as challenging; a content analysis highlighted 17 problem areas
	2010-Survey	143 former and current supervisory board members were asked to complete a survey and rate the importance and occurrence of issues in the 17 detected problem areas; 24 per cent of the targeted non-executive directors participated in the study	Used to identify the most critical boardroom challenges (i.e. having relatively high scores on both importance and occurrence)
	Semi-structured interviews	Five semi-structured interviews with high-profile non-executive directors of listed firms in The Netherlands	Used to confirm the survey results and to obtain an expert opinion on how the effectiveness of supervisory boards could be improved in the most critical boardroom areas
Stage 2 (2012)	Semi-structured interviews	Seven semi-structured interviews with non-executive directors of various types of organizations (one to two hours each)	Used to develop a second, more elaborate survey to explore the main three boardroom challenges as identified in the 2010-survey
	2012-Survey	1,102 supervisory board members were asked to fill-out a survey exploring the three most critical boardroom challenges; six open-ended questions were used to obtain director narratives; 8.3 percent of the targeted non-executive directors participated in the study	Used to obtain in-depth insights in the factors contributing to boardroom challenges as well as the intervention techniques used by non-executive directors to prevent and address issues in these areas

institute mid-2010. A detailed description and analysis of the empirical findings can be found in Peij *et al.* (2012).

During the second stage of this research, the top-3 boardroom challenges were examined in more detail to understand the causes of these challenges and how non-executive directors respond to these challenges. For that purpose, the research team interviewed seven of the 2010-questionnaire participants during one to two-hour sessions (see the Appendix for a sample of interview questions) and used non-executive directors' observations to develop a refined questionnaire. As interviewees highlighted the complexities and context-specificities surrounding boardroom challenges, the research team included two open-ended questions in the questionnaire to allow non-executive directors to describe their boardroom experiences. More specifically, the questions ''which board intervention would you use to address boardroom challenge X'' and ''what would be an example of an effective board intervention that you have applied in the past to address boardroom challenge X'' were used to survey non-executive directors about boardroom interventions (see the Appendix for a sample of our survey questions).

During March 2012, a second web-based questionnaire was sent to 1,102 alumni and contacts of the training institute for directors. In total, 91 non-executive directors with experience on two-tier boards filled out the survey, yielding a response rate of 8.3 per cent. As some participants skipped the open-ended questions, the research team obtained 162 responses for the first open-ended question (i.e. what boardroom interventions would you use) for the three boardroom problems combined. For the second open-ended question (i.e. what effective boardroom interventions did you use in the past), the research team obtained 92 replies. Furthermore, the length of the provided narratives varied from one to 82 words per open-ended question, with an average of 19 words.

Following Van Maanen's (1979) approach to analyse qualitative data, the research team used open coding techniques to assign first-order concepts or descriptive phrases to the 254 narratives collected via the survey (Strauss and Corbin, 1990). These first-order concepts allowed the research team to construct an overview of how participating non-executive directors perceived and defined boardroom challenges and interventions. As part of the review, directors' narratives were discussed several times to group similar descriptions in order to create categories of frequently mentioned interventions for each challenge. Given the diversity of mentioned boardroom challenges, some directors' answers required multiple iterations in order to correctly classify responses. Finally, the empirical findings of the study were presented at directors' events to obtain additional feedback.

Results

The eleven self-assessment reports and the 2010-questionnaire indicated that non-executive directors on Dutch supervisory boards are confronted with significant boardroom challenges. Whereas most challenges scored high on either importance (e.g. issues regarding integrity and the chair's functioning) or frequency of occurrence (e.g. issues regarding meeting effectiveness and board composition), three boardroom challenges scored relatively high on both dimensions: issues regarding the ability of non-executive directors to ask management critical questions (importance: 4.6 out of 5.0; occurrence: 82 per cent of the non-executive directors experienced this); issues regarding information asymmetries in the boardroom (importance: 4.4; occurrence: 47 per cent) and issues regarding the interpersonal working relationship between executive and non-executive directors (importance: 4.3; occurrence: 68 per cent)[1].

Given the significance of these three boardroom challenges, a second survey instrument explored how supervisory boards address issues in these areas. The 91 non-executive directors that filled-out the questionnaire in 2012 are experienced board members: 72.5 per

cent of them have been on supervisory boards for five years or longer and 57.1 per cent of them currently hold two or more directorships. Their board positions vary from directorships in listed companies to positions in SMEs and nonprofit-organisations. Approximately 78 per cent of the respondents were male. The narratives provided by the non-executive directors confirm the significance of the challenges. The following sections explore each main boardroom challenge in detail.

Boardroom Challenge 1 – ability of non-executives to ask managers critical questions

One of the key areas in which supervisory board members experience challenges is the ability of non-executive directors to ask managers critical questions. A non-executive director, for example, describes that ''in the past, the board's non-questioning behaviour has created problems; I still remember an integrity breach that we did not handle well. We have learned from it and we have become much more vigilant.''

Non-executive directors mention various causes inhibiting their ability to ask managers critical questions. First, they often describe that they struggle with defensive behaviours of executive directors. One non-executive director believes that ''the executive directors find it troublesome and pointless that we ask questions.'' Another supervisory board member describes that ''answering questions sometimes leads to excessive information supply from the part of management [. . .]. This can of course be completely sincere, but sometimes it looks a bit like a tactic to overwhelm the board.'' In this context, several non-executive directors mention that it is sometimes culturally undesirable to question issues too often in the boardroom. For example, a supervisory board member states that ''the Dutch do not like it when people lose face. But that leaves space for people that do not want to follow the rules very precisely.'' Two other non-executive directors indicate that ''not asking questions has to do with social pressure. You want to have a good time'' and ''it sometimes happens that fellow supervisory board members find it unpleasant when you keep asking questions.'' In sum, the presence of a culture that does not allow non-executive directors to ask management critical questions appears to undermine non-executive directors' supervisory roles and the supervisory board's monitoring potential.

Second, supervisory board members also hinted at the inability of the board to challenge management: ''The questioning skills of fellow directors are sometimes quite poor.'' However, more often non-executive directors mentioned the inability of board members to support each other's questioning. Comments like ''there is too little support within the supervisory board'' and ''questions are often posed by individual directors, not by the board as a group'' were regularly made. A non-executive director describes that he always ''figures out in advance whether there is support within the supervisory board, because questioning can lead to awkward situations during board meetings.''

Third, non-executive directors also highlighted that not having access to the ''right'' information is a barrier to asking critical questions. In some cases, non-executive directors ascribe this to the literal absence of data about key developments. Non-executive directors, however, most often struggle with information overload. A supervisory board member states that ''the board should first identify the most relevant issues together with the executive board, and consequently discuss those issues during the meetings.'' Another non-executive director highlights this aspect from a different angle: ''I think as a board, we need to be clearer about our information needs in order to ask the right questions as part of the process.'' In sum, the lack or the abundance of information may undermine non-executive directors' ability to ask management critical questions.

Addressing Boardroom Challenge 1

Non-executive directors mention a wide range of interventions to manage problems in this area, varying from simple to complex, structural to behavioural and incidental to repetitive.

Many non-executive directors state that it is important to address a culture that does not allow non-executive directors to ask management critical questions by creating a boardroom atmosphere in which executive and non-executive directors can have open and frank discussions. A non-executive director mentions that ''you have to create a safe environment in which you can discuss things openly and people do not make sarcastic remarks.'' Depending on the situation, non-executive directors highlight that this can be achieved by persistently asking management the right questions and asking similar questions in different ways. A non-executive director, for example, describes that ''if you do not understand something, you should just ask questions. If you still do not understand it afterwards, you should become suspicious. A board cannot make decisions that you do not understand.'' Others mention that one should ''just keep asking questions; if necessary by making a joke or downplaying the importance of the issue'' and that it is important to ''remain in a questioning mode and refrain from expressing your personal opinions.''

Non-executive directors also refer to the importance of managing relationships with management: ''It is important that management trusts the supervisory board and that the boardroom is a safe environment. They must know that it's all about the content, not personal.'' This can be done by preparing management for critical questions. Non-executive directors explain that they usually ask more difficult questions before meetings: ''It works well when you ask your questions before the meeting as executive directors will not be taken by surprise.'' Non-executive directors emphasise the important role of the chair of the supervisory board: ''The relationship between both chairs [of the management and the supervisory boards] and their efforts to discuss matters beforehand is crucial in this area.''

Non-executive directors also refer to a number of solutions relating to the organisation of the board's work. Several non-executive directors, for example, suggest that streamlining the decision-making processes in the boardroom improved their ability to ask management questions. Specifically, putting critical issues on the meeting agenda at a regular basis prepared management for the supervisory board's inquiries. A non-executive director elaborates on this: ''Develop as a board an annual plan in which you highlight key themes and ways to monitor them. As a result, the management team knows that these issues will be critically discussed.'' Organising meetings outside regularly scheduled board meetings is also mentioned by non-executive directors as a means to adequately ask management critical questions. For instance, a non-executive director described that ''it is sometimes useful to address tough questions in a special focus meeting.'' Another non-executive director points out that this may particularly be important as ''time pressure and urgency are sometimes misused by executive directors. In those cases, it is important to remain vigilant and make sure the board is not carried away by the situation.''

Moreover, several non-executive directors highlight the need to profoundly understand the organisation and its challenges. A supervisory board member describes: ''Make sure that you know what you are talking about. As a board member, you should collect information separately from management and understand the key elements of the organisation.'' Some non-executive directors actually described how they obtained additional information: ''Before the board meeting, I always walk through the organisation and talk with people. Particularly when there are certain issues, I make sure that I speak with involved key personnel.'' In sum, assuring that one really understands the business is seen by non-executive directors as a critical factor for preparing and enabling the board to ask management critical questions as part of the board's decision control role.

Boardroom Challenge 2 – information asymmetries

A second major area in which supervisory board members experience challenges relates to the quantity, quality, timing and focus of information provided by management. First, non-executive directors' narratives often illustrate their discontent with the quantity of

information. Sometimes this relates to the absence of relevant information, yet most often information overload appears to be the core problem. For example, a non-executive board member explains that ''complicated matters often involve an overload of information. In those cases, a clear summary of the key issues would have been more effective.'' A non-executive director summarises this by pointing out that ''executive directors sometimes seem to have an 'I-had-no-time-to-write-a-shorter-letter-attitude'.''

Second, non-executive directors regularly refer to lacking organisational capabilities to collect and analyse required information. Two supervisory board members, for instance, note that ''the (financial) systems are not sufficient and the organisational culture is not well-attuned to analyse critical information about environmental developments'' and ''the way in which financial information is being presented to the board is lacking clarity.'' Non-executive directors also experience issues relating to the timing of information, as pointed out by the following quote: ''The timing of information is sometimes a problem within the board. In some cases, managers already have made decisions and as a result the supervisory board receives the information when everything is already done and the dust has settled.''

Third, non-executive directors also indicate that the information provided by managers to the supervisory board focuses too narrowly on particular issues. Specifically, non-executive directors often state that financial information dominates boardroom discussions. One non-executive director describes this as follows: ''In our meetings, there tends to be too much focus on the numbers. However, these figures in the end say nothing about the actual development of the business.'' Several non-executive directors emphasise the need to receive more information other than financial statements and state that: ''Early warning signals are more present in sales forecasts and service level, quality and client satisfaction trends.'' In sum, receiving the right quantity and quality of information, at the right time, is a challenge to many non-executive directors on Dutch supervisory boards.

Addressing Boardroom Challenge 2

Non-executive directors refer to a range of boardroom interventions to address information asymmetries. A group of non-executive directors highlights the importance of establishing a formal information protocol, outlining detailed information requirements of the supervisory board. Several non-executive directors indicate that drafting this protocol is a balancing act between obtaining all the required information and keeping the amount of information manageable. One non-executive director illustrates this by describing that ''you need a good information protocol that makes explicit which information should be provided to the board. But it is important to keep in mind that there is information that is 'must have' and information that is 'nice to have'''. Non-executive directors highlight that an information protocol not only structures the provision of information, but that it also helps to manage mutual expectations. One non-executive director describes this in the following way: ''It is very useful when managers make a yearly information plan for the board that clarifies which information can be expected at certain points in time.''

Non-executive directors also often mention that information sharing is a continuous process as a board's information requirements change over time. One of the supervisory board members states that this process is about ''striking the right balance. You continuously have to assess the quality and quantity of information to make sure everything is well-functioning. We regularly do this as a board.'' Non-executive directors regularly mention that their supervisory boards make small structural changes to the information protocol. To keep the amount of information manageable, for example, supervisory boards have started to include executive summaries in board papers. As highlighted by a supervisory board member: ''Keep asking for the information you think is necessary, but do not fail to flag information that is no longer required. Also include an executive summary containing the main issues.''

Another non-executive director describes how the board, together with management, filtered out details to make the provided information more succinct: ''My observation was that the provided information contained too many details. We discussed it with the CEO and controller and reduced the level of detail of the reported information.''

A number of non-executive directors believe that maintaining a healthy working relationship with management is key to obtaining essential information quickly and correctly. One supervisory board member describes this in the following way: ''You have to work hard on establishing trust in relationships as this will guarantee that everything of absolute importance will be openly discussed in the board meeting.'' Non-executive directors mention that establishing relationships beyond management also facilitates the exchange of infor-mation: ''I always make sure that I go to places where people will freely talk about the company. By carefully listening to customers, I obtain a good view on what's going on. Sometimes you get the impression that they are talking about a different organisation.'' As such, broadening the number of information sources appears to be an important tool for non-executive directors to manage information requirements of the supervisory board.

Boardroom Challenge 3 – interpersonal tensions in board-management relationships

Non-executive directors' narratives indicate the existence of additional issues, ranging from interpersonal conflicts to strong disagreement with management with regard to the future direction of the firm. Although it is clear from the non-executive directors' responses that tensions often arose during times of change and financial distress, non-executive directors were in general less explicit about these issues and have difficulties pinpointing the exact causes of problems in this area. However, two factors clearly stand out. First, non-executive directors struggle to manage formal responsibilities as a director with personal relationships they may have with executive directors of the firm. One non-executive director describes: ''My biggest challenge is to strike the right balance between my formal role as director and my wish to maintain a healthy relationship with management.'' Another supervisory board member concurs by stating that ''friendship should never affect the execution of your role as a supervisory board member.'' As stated by one supervisory board member, the tensions can have significant implications: ''If friendships imply that you cannot ask questions anymore, there is definitely a good reason to leave a supervisory board (as long as you assume that friendship is important to you).''

Second, non-executive directors also frequently describe the absence of trust in the working relationships with executive directors as a challenge to establishing and maintaining working relationships between the supervisory board and the management board. On the one hand this is caused by the impression that management is not open enough about ongoing matters. A non-executive director expresses his frustration by noting that ''management tends to keep the supervisory board at a distance. Consequently we do not know enough to execute our roles adequately.'' Similarly, another non-executive director observes that ''a main obstacle in my relationship with management is the extent to which information is censored and edited by executive directors.'' Non-executive directors also mention that mistrust arises from the appointment and/or election of executive and non-executive directors who are not up to their task. For example, a supervisory board member states that in his experience: ''Challenges in the relationship between supervisory board members and executive directors often arise as a result of the [low] quality of incoming non-executive directors.'' Similarly, another non-executive director refers to a lack of skills on the management board: ''In my view, the CEO should be able to do way more to improve the quality of decision-making and usefulness of documents presented to the board.'' Thus, both the absence of trust and presence of friendship are mentioned as key factors contributing to challenges in the working relation-ship between executive and non-executive directors on Dutch two-tier boards.

Addressing Boardroom Challenge 3

Many non-executive directors in this study refer to one single intervention to manage possible issues in board-management relationships, i.e. putting effort into developing the relationship by constantly communicating with management while keeping an appropriate distance. The largest group of non-executive directors describe that one simply has to openly address issues as soon as they arise in the relationship. Two supervisory board members describe this in the following way: ''You have to be open, transparent and honest; you have to be willing to confront each other when there are problems in the relation'' and ''one should simply pinpoint things when there is something wrong, of course always with the utmost respect for individuals.'' Non-executive directors also highlight several times that the chair of the supervisory board plays a central role in addressing any relational challenges: ''I think problems in the working relationship and related tensions should at first be discussed in private by the chair. It is from there that you can work on a solution.''
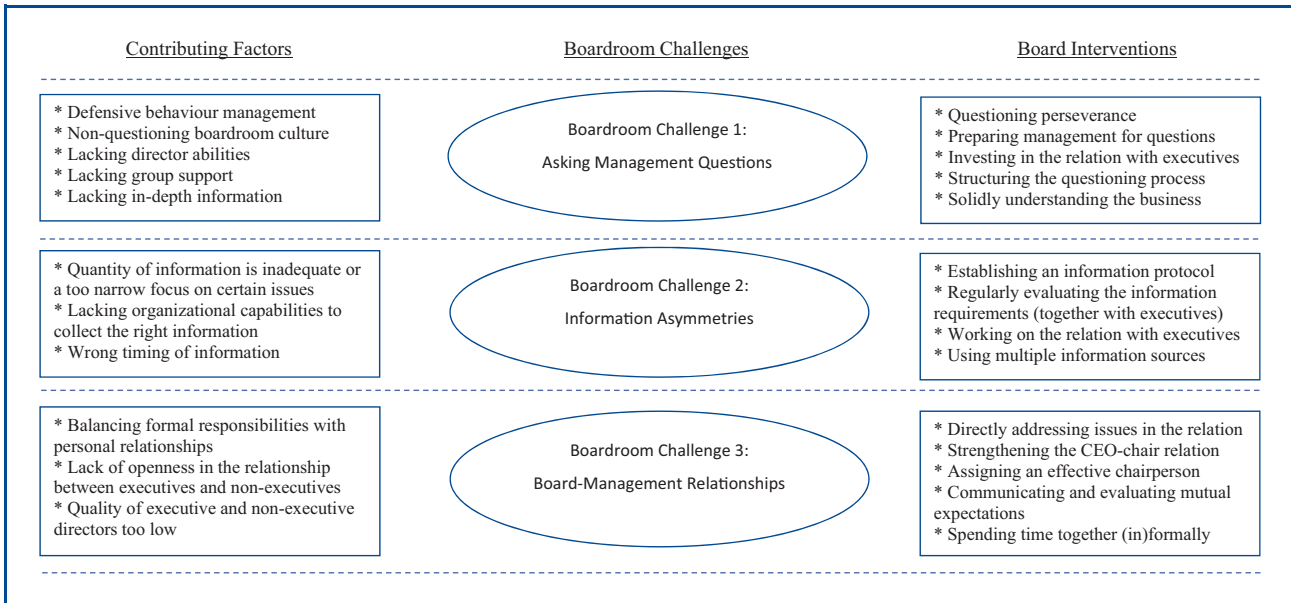
Non-executive directors also mentioned the importance of communicating mutual role expectations with executive directors. By clarifying each other's operating domains and responsibilities, possible relational tensions can be partially prevented. One non-executive director notes: ''it is important to be clear about what both boards expect from each other. And you have to respect those mutual expectations and use them as a starting point to search for win-win solutions.'' Non-executive directors also point out that regularly evaluating and reviewing these mutual expectations is essential. One supervisory board member states: ''You should explicate the roles and responsibilities of executive and non-executive directors and evaluate these every year and identify opportunities for improvement. The working relation can always be improved, even if it is good already.'' Hence, non-executive directors indicate that explicating and monitoring expectations is central to resolving interpersonal tensions in board-management relationships.

Non-executive directors also refer to the necessity of taking sufficient time ''to get to know each other'' and better understand what drives executive and non-executive directors. A non-executive director describes the importance of this process: ''You have to put a lot of energy in building a healthy relationship, of course within the boundaries of your role. You have to make clear that both boards are on the same side, that they are not opponents.'' Another non-executive director observes: ''It is important to speak with each other on a personal level; you have to explain what you want and how one should interpret your comments.'' Non-executive directors also indicate that informal occasions may be good opportunities to strengthen relations with executive directors, ranging from company visits and committee meetings to golf and dinners. One supervisory board member describes that one should try to ''do something together regularly. For example, as a board, we assisted a project start-up in country X after a natural disaster and it is a great operational success. This helps to strengthen relationships.'' To conclude, Figure 1 provides an overview of the most frequently indicated causes of challenges in the boardroom and associated interventions.

Discussion

This study explores three main challenges of non-executive directors on Dutch supervisory boards: the ability of non-executive directors to ask management critical questions, information asymmetries between executive and non-executive directors and their boards and interpersonal tensions in the relationship between the management and supervisory boards. Semi-structured interviews, surveys and non-executive directors' narratives indicate a diversity of problems in and around the boardroom as well as remedies adopted by non-executive directors to address these problems. The results of the study highlight that structural and behavioural factors contribute to problems in all three areas. Moreover, the empirical findings suggest that the formal separation of decision-management from

Figure 1 Main interventions and contributing factors to boardroom challenges in the Dutch two-tier model

Contributing Factors	Boardroom Challenges	Board Interventions
* Defensive behaviour management * Non-questioning boardroom culture * Lacking director abilities * Lacking group support * Lacking in-depth information	Boardroom Challenge 1: Asking Management Questions	* Questioning perseverance * Preparing management for questions * Investing in the relation with executives * Structuring the questioning process * Solidly understanding the business
* Quantity of information is inadequate or a too narrow focus on certain issues * Lacking organizational capabilities to collect the right information * Wrong timing of information	Boardroom Challenge 2: Information Asymmetries	* Establishing an information protocol * Regularly evaluating the information requirements (together with executives) * Working on the relation with executives * Using multiple information sources
* Balancing formal responsibilities with personal relationships * Lack of openness in the relationship between executives and non-executives * Quality of executive and non-executive directors too low	Boardroom Challenge 3: Board-Management Relationships	* Directly addressing issues in the relation * Strengthening the CEO-chair relation * Assigning an effective chairperson * Communicating and evaluating mutual expectations * Spending time together (in)formally

decision-control in the two-tier model may create additional challenges related to the working relationships of the management and supervisory boards.

The findings have several implications for scholars and practitioners. First, the analysis highlights the complexities involved in assessing and addressing challenges in the boardroom. Structural and behavioural factors contribute to non-executive directors' ability to ask management critical questions and address information asymmetries and relational tensions between the management and supervisory boards. Particularly, social interventions, such as challenging a culture that does not allow non-executive directors to ask management critical questions and building trust in relationships with executive directors, are perceived by non-executive directors to be much more difficult than process interventions, such as establishing information protocols or more regularly placing items on the agenda of the supervisory board. Interestingly, the social interventions, such as having more informal contact with managers, were often criticised for jeopardizing the independence of the supervisory board. Therefore, carefully managing and regularly evaluating the rather complex behavioural dynamics within and between supervisory and management boards seems particularly relevant to assure the effective execution of a board's monitoring function.

Second, (self-)regulatory corporate governance reform initiatives have focused on organisational measures to improve the monitoring potential of boards of directors, such as increasing the outsider ratio on corporate boards of directors, discouraging CEO-chair duality and establishing monitoring committees of boards of directors. While these externally-driven measures may improve the perceived independence of boards of directors, the findings of the study highlight the importance of internally-driven initiatives to improve the monitoring potential of boards of directors (Conger *et al.*, 1998; Long, 2006; Minichilli *et al.*, 2007). In this study, non-executive directors often emphasise that the chair of the supervisory board particularly plays an essential role by managing the relationship with the CEO, structuring work processes in and around the boardroom and pro-actively keeping track of problematic issues (see Kakabadse *et al.* 2006; Kakabadse and Kakabadse 2007a, b; Roberts, 2002; Roberts and Stiles, 1999 for research that supports these findings).

Third, the narratives provided by non-executive directors suggest that supervisory board members experience challenges as a result of the separation of decision-management from decision-control in the Dutch board system. In that context, the recent introduction of the one-tier board in Dutch Company Law might offer an attractive alternative to boards in The Netherlands. Interestingly, 78.7 per cent of the participating non-executive directors do not believe that the one-tier board model is able to offer a solution to boardroom challenges. Respondents typically state that ''people will not change'', ''the boardroom culture is more important than the structure'' and ''it is all about the persons operating a board model.'' Instead, respondents often highlighted that they were afraid that the introduction of the one-tier board might jeopardize the highly-valued independent position of non-executive directors. Consequently, additional research on the comparative (dis)advantages of one-tier and two-tier board models within the same institutional context may shed more light on the importance of board structure vice versa actual board behaviour (see Millet-Reyes and Zhao, 2010).

This exploratory study has a number of limitations that provide avenues for future research. First, whereas the study has provided an overview of factors contributing to board-room challenges and associated interventions by non-executive directors, the methodology did not allow for a differentiation between the relative importance of causes of the boardroom challenges and interventions by non-executive directors. As a result, the significance of certain causes and interventions might be over- or underrepresented in the study. Larger-scale studies could more structurally compare and contrasts specific causes and interventions to establish their relative impact on a board's monitoring potential.

Second, participating non-executive directors and their supervisory boards have been treated equally in this study, thereby ignoring important differences that may exist between individual non-executive directors and supervisory boards. Additional research could explore individual-level contingencies (such as director status, experience, power, age and educational background), board-level contingencies (such as board size, board diversity) and firm-level contingencies (such as organisational size and operating context) to better understand how these factor affect the importance of factors contributing to boardroom challenges (see for example Yildirim-Oktem and Usdiken, 2010; Zona et al. (n.d., forthcoming).

Third, whereas the Dutch context is a good starting point to examine boardroom challenges of non-executive directors on two-tier boards, the empirical findings may be contingent on this specific setting. It may be worthwhile to replicate this study in other countries with two-tier boards, such as China, Denmark, Germany, Indonesia and Taiwan. Countries with mixed and hybrid board models, such as Bulgaria, Finland, France, Russia and Switzerland (Adams and Ferreira, 2007; Millet-Reyes and Zhao, 2010), also offer interesting research settings to further compare and contrast boardroom challenges.

Fourth, given well-known difficulties of researchers to gain access to board members, the various stages of this study heavily relied on convenience sampling (i.e. alumni and contacts of one training institute for directors). Consequently, the findings may be biased as the sample consists of supervisory board members who for various reasons have expressed an interest in director courses. Therefore, more research at a larger scale is necessary to confirm the observed boardroom patterns. Moreover, as the results in this study heavily rely on the self-perceptions of non-executive directors, it might also be interesting to extent this research by examining how managers view their relationship with supervisory board members.

The results of the study reveal the complexities involved in assessing and addressing boardroom challenges of non-executive directors in the Dutch two-tier context. Structural and behavioural factors contribute to the ability of non-executive directors to ask management critical questions, address information asymmetries and manage the working relationship between the management and supervisory boards. Non-executive directors described a wide

range of interventions to manage possible problems in these areas. These observations provide corporate governance scholars the opportunity to further examine board processes to gain a better understanding of the factors contributing to non-executive directors' boardroom challenges and the opportunity to improve the monitoring potential of boards of directors.

Note

1. See Peij *et al.* (2012) for a more detailed list of all identified boardroom challenges and scores on respectively importance and occurrence.

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Appendix

Sample of interview and survey questions

Interview questions. Our consultancy work in the boardroom has indicated that boards can face issues relating to the ability of non-executive directors to challenge executive directors during and after board meetings, and issues relating to the question when (not) to continue probing, particularly in cases where answers of the executive directors are incomplete or not satisfactory.

- Have you experienced any challenges in this area?
- Could you please provide specific examples from your own experience as a director?
- What are in your view the main causes for problems in this area?
- What would in your view be a good solution for challenges in this area?

Our consultancy work in the boardroom has indicated that boards can face issues relating to the quality and quantity of information provided by the executive board.

- Have you experienced any challenges in this area?
- Could you please provide specific examples from your own experience as a director?
- What are in your view the main causes for problems in this area?
- What would in your view be a good solution for challenges in this area?

Our consultancy work in the boardroom has indicated that boards can face issues relating to the behavior and (non-)verbal communication between executive and non-executive directors. For example, there can be interpersonal conflicts and clashes between both boards.

- Have you experienced any challenges in this area?

- Could you please provide specific examples from your own experience as a director?

- What are in your view the main causes for problems in this area?

- What would in your view be a good solution for challenges in this area?

Open-ended survey questions.

- Which board intervention would you use to address boardroom challenges relating to the ability of non-executives to ask managers critical questions?

- What would be an example of an effective board intervention that you have applied in the past to address boardroom challenges relating to the ability of non-executives to ask managers critical questions?

- Which board intervention would you use to address boardroom challenges relating to information asymmetries between the management and supervisory boards?

- What would be an example of an effective board intervention that you have applied in the past to address boardroom challenges relating to information asymmetries between the management and supervisory boards?

- Which board intervention would you use to address boardroom challenges relating to the relationship between individual executive and non-executive directors?

- What would be an example of an effective board intervention that you have applied in the past to address boardroom challenges relating to the relationship between individual executive and non-executive directors?

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