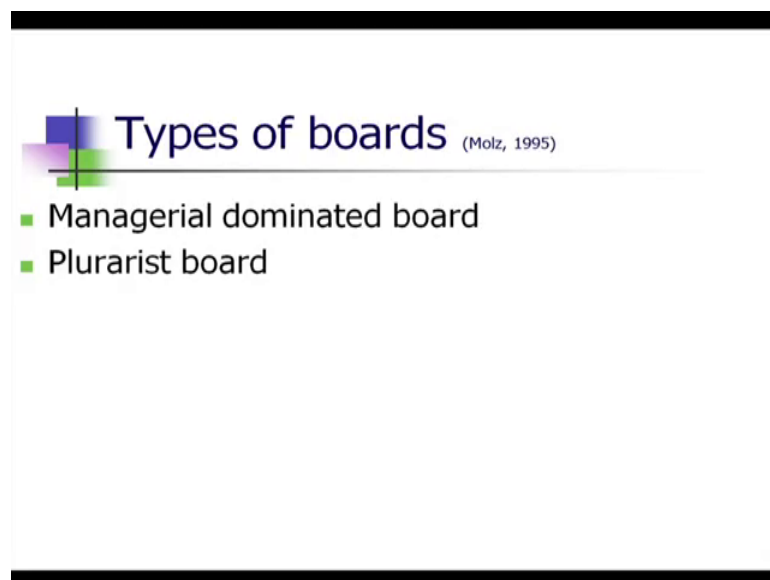


**Corporate Social Responsibility**  
**Prof. Aradhna Malik**  
**Vinod Gupta School of Management**  
**Indian Institute of Technology, Kharagpur**

**Lecture - 39**  
**Board of Directors (Contd.)**

Welcome back to the MOOC course on corporate social responsibility. My name is Aradhna Malik and I am helping you with this course, and we were discussing what board of the directors do now in this lecture this will be short. We will talk about the types of boards and you know. So, so the various types of boards and how they manage their activities.

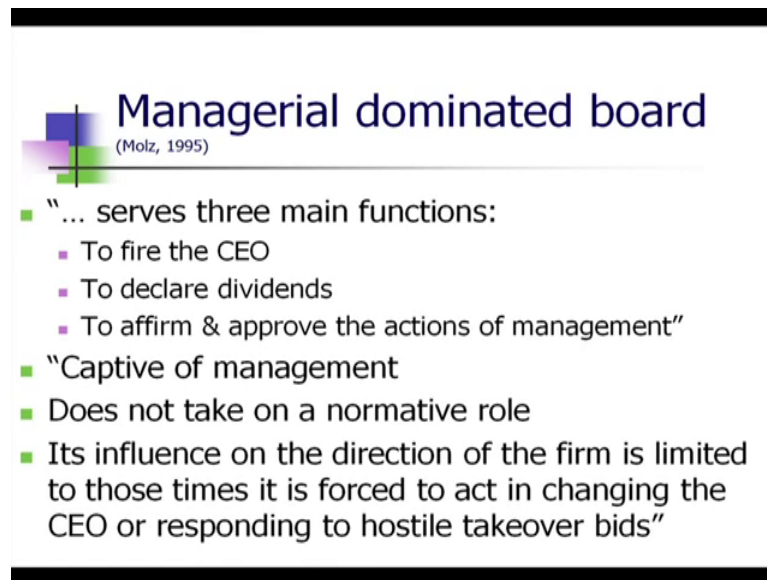
(Refer Slide Time: 00:40)



Now, Molz has discussed in large number of or he is discussed about 6 or 7 types of board, but there are two type we will be focusing on these are the most common, and that we will be focusing on in this lecture and these are the managerial dominated board and the plurarist sorry it should be pluralist board not plurarist board.

So, there should be an l here I am sorry for this should be like this here pluralist board managerial dominated board.

(Refer Slide Time: 01:14)



**Managerial dominated board**  
(Molz, 1995)

- "... serves three main functions:
  - To fire the CEO
  - To declare dividends
  - To affirm & approve the actions of management"
- "Captive of management
- Does not take on a normative role
- Its influence on the direction of the firm is limited to those times it is forced to act in changing the CEO or responding to hostile takeover bids"

Now, the managerial dominated board serves 3 functions, the first one is to fire the CEO, then to declare dividends and to affirm and prove the actions of management they may not one to fire the CEO, but they have the authority to fire the CEO if required to declared dividends and to affirm and approve the actions of management.

So, they are captives of management, they do not take on a normative role they do not take on a role that helps them lest or decide on the way on the rights and wrongs of what should be done or set norms its influence on the direction of the firm is limited to those times it is forced to act in changing the CEO or responding to hostile takeover bids

So, that is what the managerial dominated board does, they are closely working with the management, but then they you know occasionally when they are in opposition or they have to fire the CEO or when the CEO is changing for whatever reason the CEO has decide to leave they step in an performed function of the CEO or when they are responding to hostile takeover bids when people are trying to take over their company, and they are trying to defended then they step in and they support management in fielding of these hostile takeover bids.

(Refer Slide Time: 02:39)



**Pluralist board** (Molz, 1995)

- "This board is active and participative in determining the normative goals & objectives of the firm.
- Not a captive of management but rather is sensitive & responsive first to society followed by shareholders & lastly management."

Now, the pluralist board on the other hand is active and participative in determining the normative goals and objectives of the firm, they have to firm decide what should and should not be done, how it things should and should not be done then not a captive of management, but rather is sensitive and responsive first to society followed by shareholders and lastly management they pick the management, but they their work is not decided by the management they work together with the management and in fact, there is sort of you know they trust that the management will be doing its role, they just support management gets an touch with them when the management wants some help from them. Otherwise they become the face of the company, the management manage sly organization the management runs the organization and the board of directors then stays in touch with the community with the society with the environment and then sort of forms and lays on between the outer world and the organization. So, they become the face of the organization. So, that is these are the two broad categories board here.

(Refer Slide Time: 03:50)

**Characteristics of managerial dominated & pluralist boards** (Molz, 1995)


Theorist	Managerial	Mid-range	Pluralist
Lynch (1979)	Passive		Activist
Vance (1983)	Constitutional	Consultive, Communal	Collegial
Baserman & Schoorman (1983)	Managerial	Financial, Class Hegemony, Reciprocity	Multilevel limited rationality
Molz (1985)	Managerial	Review & approve, Control by exception, Normative, Strategic	Social

Now, the differences between these boards, managerial mid range and pluralist managerial board is passive pluralist board is activist, they look after the interest of the organization as far as the outside world is concerned. So, they connect with the organization the role is very clearly defined, managerial boards role is to step in and help the management whenever there is a crisis with the top management.

Managerial board is constitution pluralist board is collegial, and mid range board which is between these two is consultive and communal. So, they are connected with both and they go wherever whichever side they need to go depending on the situation. Managerial board is more hierarchical so, you know they have very clear rules of who reports to whom and the pluralist board is like a collegial board you know they treat management like a different set of colleagues and step in, you know whenever the management needs their help bit or not they not captives of the management ok.

The management the managerial board is managerial the manage things, the mid range board is financial they their exist class hegemony, there is reciprocity and in the pluralist board there is multilevel limited rationality. So, they are functioning on a different level. The managerial board is managerial they review the mid range board is reviews and approves they control by exception they are normative and they are strategic and the pluralist board has a more social function ok.

(Refer Slide Time: 05:39)



<u>Managerial dominated</u>	<u>Pluralist</u>
Infrequent board meetings	Frequent board meetings
Few board committees	Many active board committees
Many inside directors	Many outside directors
'Old boy' network	Diversity in directors
CEO is chairman	CEO is not chairman
Significant blocks of inside stock represented	No significant blocks of inside stock represented
Chairman/ CEO as dominant power	Chairman/ CEO does not have dominant power

Differences between the two types of boards managerial dominated has infrequent board meetings, the pluralist board well have frequent board meetings they find out what each other is doing and where you know they are the face of the board in the outer world. So, they find out what they are required to do outside. Managerial board a managerial dominated board as few are board committees, pluralist board because they have stake holders participating in their board they have many active board committees. Managerial dominated board would have many inside directives because the primary function of the managerial board is to step in when ever does the problem with the top management.

So, they need people from the inside actually done the work to step in and to take care of things. Now pluralist board has many outside directors. So, these since they have to bit a face of the organization they have people outside from outside participating bringing in resources and every connected back to the different theories of cooperative governance for as if the organization adopts a you know sees views cooperate governance from the resource dependency perceptive, then their more likely to have a pluralist board than a managerial board.

If they are more if the organization views the cooperative governance more from the agency perceptive, or from the agency lens then their more likely to have a managerial type of board.

Managerial dominated board would have an old boys' network, pluralist board would have diversity in directors. So, in the managerial board dominated board this CEO could be the chairman of the board also, in a pluralist board the CEO will not be the chairman of the board the chairman of the board could be somebody else. Managerial dominated board significant blocks of inside stock is represented here, in a pluralist board no significant blocks of inside stock is represented. So, people the insiders who have stock holdings will not be you know a significant representatives or they will not be representative in the board of directors, they will not find a place in the board of directors they are separate to board of directors is constituted of people from outside of people who are really looking outside the organization and they become the face of the organization and they are looking towards building or connecting the organization, to the rest of the society. So, let them let the management do its work.

Then in managerial dominated board the chairman or CEO has a is the dominant power in the board, in pluralist board the chairman or CEO does not have dominant power it is the independent directors and their significant and you know and how much take they have and how much voice they have and that determines how much power they have in the board.

(Refer Slide Time: 08:40)



**Working instruments for better corporate governance** (Siebens, 2002)

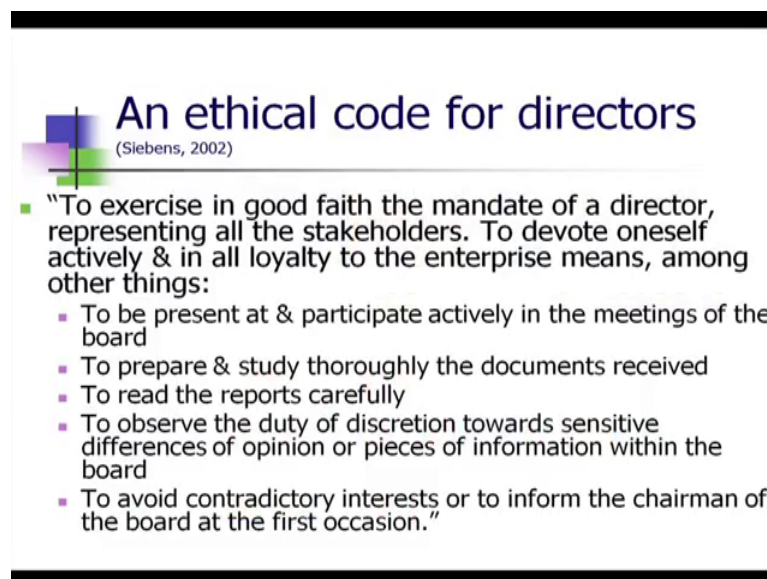
- "Complete openness
- Spreading of knowledge in the board's composition
- Frequent meetings
- Splitting up of special functions
- Thorough preparation & recording of all meetings
- Replacement of weak or regularly absent directors
- Sufficient time to discuss."

Working instrument for better corporate governance, in order to ensure the better corporate governance takes place we were talking about implementation, we just finished

the discussion on types of board. So, what are the working instrument how do the board of directors do what a do for good cooperate governance there has to be complete openness. Spread of knowledge in the boards composition the knowledge regarding the activities of the organization should be spread equitably among the board members. They need to have frequent members sorry meetings splitting up of special functions thorough preparation and recording of all meetings, replacement of weak or regularly absent directors and they should have sufficient time to discuss.

Now, if the board of directors does all of this, then their likely to contributes significantly to the cooperate governance of the organization, to the governance of the organization and over see the work of the management or help or facilitate the work of the management or support the work of the management as well as possible and eventually improve the social they performance of the organization and accountability and credibility of the organization all of these things are linked.

(Refer Slide Time: 09:59)



**An ethical code for directors**  
(Siebens, 2002)

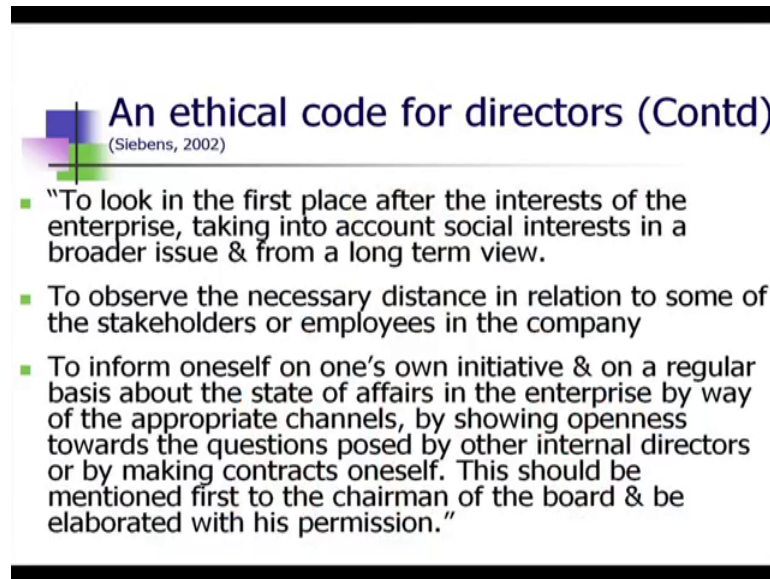
- "To exercise in good faith the mandate of a director, representing all the stakeholders. To devote oneself actively & in all loyalty to the enterprise means, among other things:
  - To be present at & participate actively in the meetings of the board
  - To prepare & study thoroughly the documents received
  - To read the reports carefully
  - To observe the duty of discretion towards sensitive differences of opinion or pieces of information within the board
  - To avoid contradictory interests or to inform the chairman of the board at the first occasion."

An ethical code for directors, to exercise in good faith the mandate of a director representing all the stake holders to devote oneself actively and in all loyalty to the enterprise means among other things, to be present and participate actively in the meetings of the board. To prepare and study thoroughly the documents received to read the reports carefully, to observe the duty of discretion towards sensitive differences of

opinion or pieces of information within the board to avoid contradictory interests or to inform the chairman of the board at the first occasion.

So, they need to take care of you know they need to be actively involved in the work of the organization.

(Refer Slide Time: 10:44)



**An ethical code for directors (Contd)**  
(Siebens, 2002)

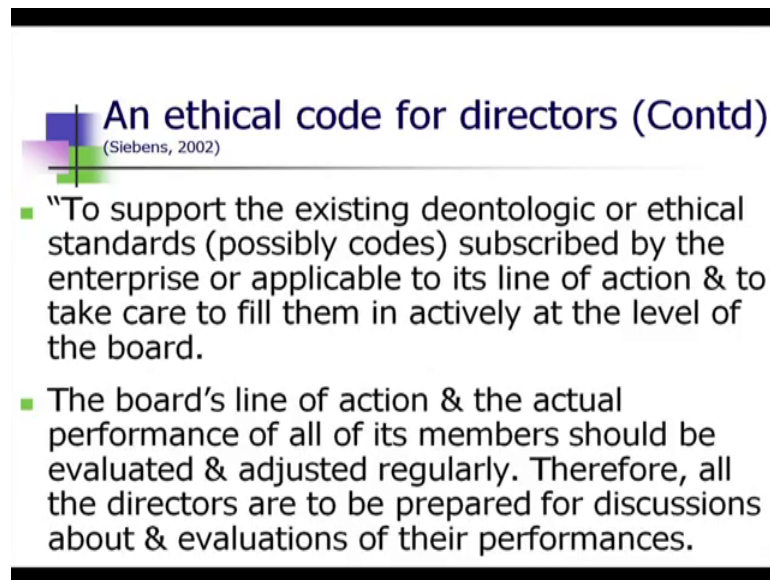
- "To look in the first place after the interests of the enterprise, taking into account social interests in a broader issue & from a long term view.
- To observe the necessary distance in relation to some of the stakeholders or employees in the company
- To inform oneself on one's own initiative & on a regular basis about the state of affairs in the enterprise by way of the appropriate channels, by showing openness towards the questions posed by other internal directors or by making contracts oneself. This should be mentioned first to the chairman of the board & be elaborated with his permission."

Then to look in the first place after the interest of the enterprise, taking into accounts social interests in a broader issue and from a long term view to observe the necessary distance in relation to some of the stakeholders or employees in the company to inform oneself on ones own initiative and on a regular basis about the state of affairs in the enterprise by way of the appropriate channels by showing openness towards the questions posed by other internal directors or by making contracts oneself this should be mentioned first to the chairman of the board and be elaborated with his or her permission.

So, they need to look after the interest of the organization they need to let the chair person know what how their doing their work and they need to take care of the stability of the board so that the board really is able to do what it is in constituted to do.



(Refer Slide Time: 11:43)



**An ethical code for directors (Contd)**  
(Siebens, 2002)

- "To support the existing deontologic or ethical standards (possibly codes) subscribed by the enterprise or applicable to its line of action & to take care to fill them in actively at the level of the board.
- The board's line of action & the actual performance of all of its members should be evaluated & adjusted regularly. Therefore, all the directors are to be prepared for discussions about & evaluations of their performances.

To support the existing deontologic or ethical standards subscribed by the enterprise or applicable to its line of action, and to take care of to fill them in actively at the level of the board. The board's line of action and the actual performance of all of its members should be evaluated and adjusted regularly therefore; all the directors are to be prepared for discussions about and evaluations of their performances.

So, active involvement accountability and the you know falling in line or adaptability to the rest of the board and that is all we have time for in this lecture so that ends the discussion on the board of directors, on what a board of directors is what it does and how it is constituted, and all of these things.

Now in the next class we will continue some more discussion on cooperate governance, we will talk about the principles of cooperate governance and how they then connect to cooperate social responsibility or contribute towards cooperate social responsibility.

Thank you very much for listening.