

THE ROLE OF THE INDEPENDENT NON-EXECUTIVE DIRECTOR IN AUSTRALIA

By

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CERTIFICATION

This thesis is submitted in fulfilment of the requirements of the degree of DBA, in the Macquarie Graduate School of Management, Macquarie University. This represents the original work and contribution of the author, except as acknowledged by general and specific references.

I hereby certify that this has not been submitted for a higher degree to any other university or institution.

Signed:

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ABSTRACT

Company directors have been in existence for more than four hundred years. In the past, they were considered to be a necessary part of corporate existence, and were usually appointed to a board by the CEO or chairman. However, they were usually mates from the ‘boys club’ and gained their position from whom they knew, and not from what they were capable of contributing. The appointment of independent directors became more normal, as shareholders looked for a way to wrest control back from management. But what independent directors really do and why they are there is not widely understood. A review of the literature relative to independent directors has identified a gap in the knowledge. This gap is the role of the independent director when considered from a commercial aspect; that is, those who observe or write about independent directors.

This thesis has attempted to generate a theory of the role of the independent director through a review of the literature and a subsequent series of interviews. Grounded theory was the chosen methodology for analysing the data and formulating a theory of the role because it allows the researcher to ground the theory in the data instead of establishing a hypothesis and testing it.

The resulting theory is more complex than it first appears. It was found that the primary role of the independent director is to improve the performance of the board and the company. This role is impacted by a number of factors, the two most influential being the information that is available to the independent directors, and the position of the company. This second factor is defined as the size of the company, where it is in its life cycle, and whether it is experiencing any significant change.

These findings enable a number of recommendations to be made to improve policy and practice, recognising the impact of information and company position on the ability of independent directors to contribute positively. It also raises several areas of further study to continue to refine the understanding of the role of the independent non-executive director in Australia. These include, among others, investigating the role from other viewpoints such as the board chair or company secretary, or researching the link between company position and information available to independent directors.

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