ISSN 1996-3343

Asian Journal of Applied Sciences

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Asian Journal of Applied Sciences 7 (2): 51-65, 2014
ISSN 1996-3343 / DOI: 10.3923/ajaps.2014.51.65
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Influence of Intellectual Capital on the Board of Directors' Styles

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ABSTRACT

Most organizations are governed and directed by the board of directors (BoD). Therefore, the success of an organization is largely attributed to an effective board as a significant component of the Corporate Governance (CG) mechanism. The style of the BoD widely differs from one to another, because so many factors influence their governing style such as their concern, ability, education, skill, gender, age, experience, cultural environment and so on. Most of these factors are considered as elements of intellectual capital. The differences in style generally refer to two aspects: Extent of concern about the board functions and the degree of board concern about interpersonal relationships. Parallel to that, some scholars contend that the BoD can be categorized according to strategic and financial controls. However, the phenomenon of an "effective board" postulates that the functions and styles of the BoD are to be transformed into comprehensive board functions and styles, which should entail components of the Intellectual Capital (IC). Intellectual capital or intangible assets that create a profit, is tacit and cannot be defined clearly. It is the combination of different capitals or intangible assets within a firm. This study will utilize four components of intellectual capital, namely, human, structural, relational and spiritual that have effect on BoD's style. The outcomes of this study represent the impact of intellectual capital components on the BoD's style and performance, which will also eventually influence firm performance.

Key words: Board of directors functions, intellectual capital, board style, professional board, human capital, relational capital, structural capital, spiritual capital

INTRODUCTION

The board of directors or BoD, is an essential component of the firm's corporate mechanism (Razaee and Riley, 2009). They are acknowledged as the linkage between capital providers (the shareholders) and a group that employs those capitals in order to create value (managers). This signifies that the board extends beyond the small and powerful group that provides resources for the operations of the firm (Monks and Minow, 2008). Tricker (2009a) explicates four dominant styles of the board: Rubber-stamp board, country-club board, representative board and professional board, whereby a representative board is referred to as a responsive board style, a professional board with emphasis on both board tasks and board relations (Tricker, 2009a). On the other hand, professional board means a board that works in a skilled occupation as specialists that present themselves with an adequate amount of skill related to the their functions and at the same time have a sufficient level of abilities in public relations. On the other hand, the professional board contains the components of intellectual capital, which help the firm to reach their targets which are set based on the shareholders' interests as well as those of other stakeholders. Thus, finding, selecting and appointing this kind of members of the BoD is the responsibility of shareholders that vest the board with considerable authority and power based on the degree of assurance by the board that they will not misuse their authority and power.

Monks and Minow (2008) argued that the board acts as an agent and custodian of the owner's interests, where owners need to be confident that legally transferred power and resources are used only for the purpose of creating value for the firm. It is understandable that overseeing managers and board is not possible for the shareholders because of their broad and high involvement (Monks and Minow, 2008; Bajuri, 2010). Therefore, which kind of board of director's style is the most appropriate to address concerns of shareholders as well as other stakeholders?

Accordingly, the different abilities of the members of the BoD as a human resource of the firm have influence on their styles as well as their performance. Any member of the board possesses some capabilities such as skill, experience, expertise and so on as elements of intellectual capital. An effective board postulates that the BoD's functions and styles are to be transformed into comprehensive board functions and styles, which should entail components of the intellectual capital (IC). IC has been known as the key firm intangible resource that can help to create opportunities for stable competitive advantage and also help to create value and wealth in a knowledge-based Economy (Bontis *et al.*, 2002; Kong and Thomson, 2009; Page, 2005; Stewart, 1997; Sullivan, 1998; Sofian *et al.*, 2011). Generally, there is wide agreement that IC includes Human Capital (HC), Structural Capital (SC) and Relational Capital (RC) (Stewart, 1997; Roos *et al.*, 1998; Bontis, 1998, 2003; Mouritsen *et al.*, 2005; Seleim *et al.*, 2007; Cabrita and Bontis, 2008; Hsu and Fang, 2009; Ling, 2013; Edvinsson and Sullivan, 1996). In addition to the above mentioned IC components, Ismail (2005) added spiritual capital as the fourth component of IC.

SELECTION OF THE BOARD OF DIRECTORS

Selection of the board of directors by the shareholders is deemed an essential component of the corporate governance mechanism. Shareholders are the final legal authority responsible for reviewing different alternatives and reaching the best decision for the firm (Razaee and Riley, 2009). While selecting, the board is responsible for executing functions bestowed upon the board such as monitoring of CEO and managers, providing advice to the management, access to resources and so on. One should take into consideration that the CEO does not like to be monitored by the board because it leads to the appraisal of the executive management, but instead, the CEO would prefer the advisory function of the board because he or she gets directions for operating decisions based on the expertise and experience of the members of the board, which help increase the firm's performance (Adams and Ferreira, 2007).

The BoD is the agent of shareholders while the CEO is appointed as a representative of the BoD. The agency relationship where one party (the shareholders) as principal delegates works for another (BoD) as the agent is briefly identified by agency theory (Mallin, 2007). In this perspective, other principal-agent relationships include the relationship between the BoD-CEO and management-employee relationships (An *et al.*, 2011). In this regard, agency theory advocates that shareholder's benefits diverge from the managers of the company; this implies that the business goals of shareholders comprise profit maximization and allocation of distributed profits, whereas, the role of the managers such as the CEO is limited to the running of a business for the purpose of meeting the interests of the investors (Ong and Lee, 2000), though at times differences in interest between both the groups can lead to some conflicts.

In such a situation, the supervising function of the BoD would also include conflict resolution or principal identification (Collin, 2008), which is significant in resolving conflicts created by the differences in interest between both groups. For the purpose of reducing firm disagreement, conflict resolution is explained as the identification of official principals and their legal firm's aims by using various processes of adoption between aims and different principals (Collin, 2008). Collin (2008) believed that the BoD is responsible to direct, control and solve the firm's conflicts. In other words, they are held responsible for managing and eliminating disharmony to ensure discipline in the firm's affairs. Thus, in this position, having precise and appropriate abilities is essential in playing the important role of minimizing problems.

This discussion implies that components of IC, especially spiritual capital (Ismail, 2005; Ismail and Songip, 2006) facilitates the construction of a friendly board, as friendly space in the firm positively influences the other functions of the board and leads to better corporate performance. Thus, different components of IC, human, structural, relational capital (Edvinsson and Sullivan, 1996; Bontis, 1998; Roos *et al*., 1998) and spiritual capital (Ismail, 2005; Ismail and Songip, 2006) are intended to influence various board styles, which eventually then link to its performance.

INTELLECTUAL CAPITAL

According to the literature there is no specific definition of IC. However, many prominent authors have presented a general concept of IC (Jurczak, 2008; Kavida and Sivakoumar, 2008). IC has been known as the main firm intangible resource that can help to create opportunities for stable competitive advantage and also help to create value and wealth in a Knowledge-based Economy (Bontis *et al*., 2002; Kong and Thomson, 2009; Page, 2005; Stewart, 1997; Sullivan, 1998). While IC is described by Stewart (1997) as “something that cannot be touched, although it slowly makes you rich”, Edvinsson and Sullivan (1996) defined it as the knowledge assets that can be converted into value. In this regard, Harrison and Sullivan (2000) stated that IC is knowledge that can be converted into profit.

Bontis (1996) acknowledged that IC is elusive, but once it is discovered and exploited, it could provide an organization with a new resource-base from which the organization will compete and win. Roos *et al*. (1998) said that IC includes all the processes and the assets which are not normally shown on the balance sheet and all the intangible assets (trademarks, patents and brands) which modern accounting methods consider. It includes the sum of the knowledge of its members and the practical translation of his/her knowledge. IC is the difference between the book value of the firm and the amount of money someone is prepared to pay for it (Brooking, 1997; De Pablos, 2003). Similarly, Abdullah and Sofian (2009) and Sofian (2005) believed that IC generally is the difference between the market value and booked organisation assets that is termed as intangible assets. Finally, Intellectual capital is every knowledge that has been given by individuals to the company, which is supposed to be an organizational competitive advantage and helps in value creation (Stewart, 1997).

CLASSIFICATION OF INTELLECTUAL CAPITAL

Generally, a number of classification literature (Sveiby, 1997; Edvinsson and Malone, 1997; Stewart, 1997; Roos *et al*., 1998; Bontis *et al*., 2002; Abdullah and Sofian, 2012) divides IC into three categories, such as external (customer-related) capital, internal (structural) capital and human capital, which will be discussed in the following subsections.

Human capital: Human Capital (HC) is known as an organization's combined human capability for solving different business problems. It is inherent in employees and cannot be owned by a firm (Edvinsson and Malone, 1997). Therefore, human capital will leave when the people leave (Meritum *et al*., 2002; Marr and Starovic, 2003). Human capital also encompasses how effectively a firm uses its employee resources as measured by innovation and creativity. Human Capital includes anything associated with the people within the organization. It includes elements such as employees' tacit knowledge, skills, experience and their attitude (Bontis and Serenko, 2009). HC can be seen as a primary tool for an organization to learn by influencing the ability to acquire new knowledge (Kang and Snell, 2009). As the literature has indicated, HC focuses on competencies, attitudes and intellectual agility. Among human capital elements, competency is the most frequently cited element of human capital (Andriessen, 2004; Marr and Moustaghfir, 2005). The value that the management team (like a BoD and CEO) and employees of a business provide through the application of skills, knowhow and expertise that are more often referred to as the human capital of any firm. It is due to the fact that it influences the kind of board style and its performance and finally, firm's performance.

Structural capital: In contrast to human capital, Structural Capital (SC) is described by OECD (1999) as "What is left after employees go home for the night". Edvinsson and Sullivan (1996) stated that structural capital is every valuable thing that is remaining in the firm, when the employees have left the workplace. While firms do not own HC, structural capital belongs to the firm as a whole (Cohen and Kaimenakis, 2007). Accordingly, it is able to reproduce and share so that excellent SC will afford a good basement for rapid knowledge sharing, collective knowledge growth, shortened lead times and more productive group (Stewart, 1997, p.207). Structural capital includes codified knowledge, procedures, processes, goodwill, patents, systems, information system, databases, hardware, software and culture. Some authors declare that HC creates SC and that the quality of SC is most likely a reflection of the quality of HC (Edvinsson and Malone, 1998).

Therefore, Edvinsson and Sullivan (1996) recommended that SC as the infrastructure is essential to support top management such as BoD, CEO, different levels of manager and employee activities or in one word, the firm as a whole. Similar to Edvinsson and Sullivan (1996) and Moon and Kym (2006) stated that the SC facilitates the use of available knowledge resources so that it is known as a supportive infrastructure, databases and processes of the firm that enable the manager and employee to function and run the firm in order to implement and enhance the delivery of goods and services.

Relational capital: Relational Capital (RC) refers to the firm's relationships with internal and external stakeholders (Roos *et al*., 1998). According to Bontis (1999) and Meritum *et al*. (2002), RC comprises alliances, the relationship with different stakeholders (such as customers, partners, suppliers, investors and so on). It also consists of franchises, trademarks, licenses, distribution networks, government bodies and agencies, image and brand, communities, public and environment (Miller *et al*., 1999). The notion that customer capital is separated from human and structural capital indicates its central importance to an organization's worth (Skyrme, 1998). This kind of capital has influence on networking and the relation function of the BoD within and outside the firm (Monks and Minow, 2008). The BoD is seen as a potentially central resource for the firm, that especially plays a vital role between the firm and different resources (Hillman *et al.*, 2000; Kiel and Nicholson, 2003) in particular when they want to use it for providing different resources for the operations of the firm (Monks and Minow, 2008). In addition to the above mentioned IC components, Ismail (2005) added spiritual capital as the fourth component of IC that is described below.

Spiritual capital as one of the most recent forms of capital: In recent years, spiritual capital (SpC) has become known as the new-found intellectual capital form of the firm and organization (Zohar and Marshall, 2004; Ismail, 2005). However, scholars have stated that it has arrived through three separate paths: (1) Zohar and Marshall (2004) said that it has emerged through the attempts to bring individual concepts of spiritual intelligence to the organizational level; (2) Metanexus Institute (2006) stated it refers to an attempt to quantify the value of spirituality and religion in economic terms and (3) Verter (2003) claimed that it is based on sociological constructs building on the work of Pierre Bourdieu (French: 1 August 1930-23 January 2002). Despite the fact that these three paths overlap, each of them offers a diverse conceptualization of spiritual capital, particularly at the operationalization level (Middlebrooks and Noghiu, 2010). For example, Zohar and Marshall (2004) have applied the term 'spiritual capital' as the amount of spiritual knowledge and expertise available to an individual or a culture, adding that the word-spiritual-refers to meaning, values and fundamental purposes.

Correspondingly, Ismail (2005) averred that SpC is a new component of IC and is positively linked to various dimensions of performance; this includes operating efficiency, firm performance and organizational leadership. Spiritual capital is identified by Ismail (2005) as "the intangible knowledge that includes faith, belief and emotion embedded in the minds and hearts of individuals and in the heart of the organization which includes vision and direction, principles, values and culture". He believes the individual and organization behave and act with honor, integrity, sincerity, honesty, truth, trust, love, morals and ethics. It also includes motivation, self-esteem, courage, strength, commitment, teamwork, determination, desire, enthusiasm and team spirit. Ismail (2005) finally states that SpC focuses on interrelationships, interconnectedness and interdependency for sustainable development with the view to achieve final prosperity and happiness for all.

In this regard, Ismail and Songip (2006) explain that "Spirit came from the word 'Spiritus' which means 'breath of life'. Spirit is the unseen force that breathes life into us, enlivens us and gives energy to us. The spirit helps to define the truth, it is a real and unique self that is "we" and confirms our individuality. In fact, one could say that it is the 'spirit' that provides meanings to our existence". Ismail (2005), viewpoint on spiritual capital in organizations argues about characterizing organizational spirituality. He therefore, concludes that the alignment between the values of the management team and members is vital to organizational spirituality.

EFFECTS OF SIGNIFICANT FIRM'S RESOURCE ON BOARD STYLE

Nowadays management teams of firms are following a trend to find new ways for improving their performance. The BoD, as one of the important resources of corporate governance (Bajuri, 2010), is known as the representatives of the shareholders whose abilities will have influence on their performance (Bontis, 1999). In this regard, he stated that in the knowledge-based economy, more value of the firm is not based on its tangible assets typically found on the balance sheet of a firm such as cash, buildings and machinery but on their intangible resources. However, the author mentioned another category that encompasses intangible resources such as; people and their expertise, business processes and market assets such as customer loyalty, repeat business, reputation and so forth (Bontis, 1999).

Generally, different resources of the firm are divided into tangible and intangible, so the resource-based view argues that the difference in profitability of firms is based on the differences in their resource portfolios (Roos *et al*., 2005). Although intangible resources or intellectual capital may stand for competitive advantage, sometimes firms' managers do not understand their nature and value. They do not know if they have the people, resources or business processes in place to make a success of the new strategy (Bontis, 1999).

The realization of IC as an asset by firms is supported by the resource-based perspective, which advocates value generation and refers to the way of managing the scarce resources (Cabrita and Bontis, 2008; Roos *et al*., 2005). Cabrita and Bontis (2008) stated that intellectual capital is a critical, limited and valuable resource. Therefore, if a scarce and valuable resource exists in one firm but not in another firm, then this position could lead to the achievement of high profitability (Roos *et al*., 2005; Cabrita and Bontis, 2008).

Since top managers such as the BoD are devoid of such information, they play a decorative role in the firm (Tricker, 2009b). He stated that this kind of BoD is only viewed as a decorative concern where their meeting is marked as a formality. On the contrary, they can be empowered with intellectual capital members as a firm's significant intangible resource and who can implement their style as members of the BoD. Therefore, their ability as an element of IC will influence their style, so that a different way to improve the firm's performance will be affected by a firm's intellectual capital with different components.

BOARD OF DIRECTORS' STYLES

There has been increasing attention in the world regarding corporate boards, their functions and the contributions they make to a firm's performance and success. There is however, a gap in knowledge about what members of the BoD do. To better understand boards, academics and practitioners need to know more about the behavior and abilities of those who sit as board members because they will form different board styles.

The BoD as the supervisory and controlling body has become an increasingly important mechanism of corporate governance (Razaee and Riley, 2009). Various perspectives exist regarding the key roles and responsibilities of a board, but most scholars agree that the primary responsibility of the board is to protect the interests of shareholders, creating value by providing oversight, ensuring that the company is managed well and can achieve long-term viability (Wolf, 2007; Epstein and Roy, 2004). Epstein and Roy (2004) argued that the BoD as the supervisory body has turned into a decisive mechanism of corporate governance (Wolf, 2007) but interestingly the performance of different functions by the board is affected by different factors and one of the influencing factors is the style of the BoD in the firm. Tricker (2009b) believed that the board of directors' styles differ widely, as shown in Fig. 1.

The differences in style generally refer to two aspects: extent of concern about the board functions and the degree of board concern about interpersonal relationships. Parallel to that Hendry and Kiel (2004) contend that the BoD be categorized according to strategic and financial controls. A strategic type of board is classified in four categories: Board as the management team that highlights both strategic and financial controls and board that is identified as a "rubber stamp" board that does not emphasize the strategic and financial controls of the firm but merely provides

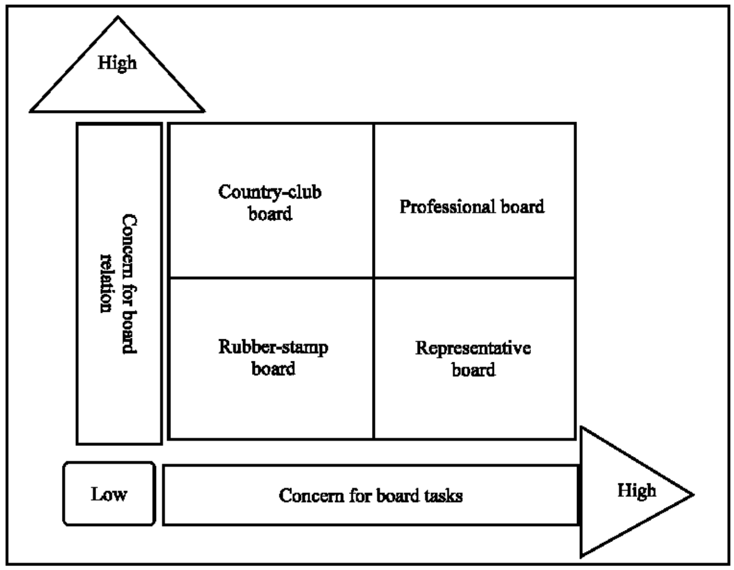

Fig. 1: Board of directors' styles (Tricker, 2009a)

formal emdorsement (Hendry and Kiel, 2004). Those are based on different characteristics and abilities of the BoD members collectively shown as different board styles ranging from Rubber-stamp Board to Professional Board style. The abilities of the boardroom are based on different components of intellectual capital such as HC, SC, RC and SpC.

RUBBER-STAMP BOARD

The board's low concern about the functions and interpersonal relationships is illustrated in the first quarter of the Fig. 1, which classifies the board as a rubber-stamp board. This implies that the BoD is only viewed as a decorative concern and their meetings are marked as a formality (Tricker, 2009b). Historically, the BoD is viewed as a ceremonial and static body of corporate governance "ornaments on the corporate Christmas tree" (Nicholson and Kiel, 2003). Generally, the functions of a static board remain limited to monitoring and controlling the expenditure and physical capitals of the firm (Nadler and Nadler, 2004; Nicholson and Kiel, 2004b). It is contended in the literature that the difference between a static and a dynamic board is shown through the difference in implication of the components of IC, particularly the human capital (Nicholson and Kiel, 2003), as a dynamic or high-performance board of directors needs to be empowered with intellectual members (Mallin, 2007), where one member is centered as a key player and other members statically sign or stamp the minutes of the board of directors meetings (Tricker, 2009b).

COUNTRY-CLUB BOARD

Country-club board style refers to the BoD's interpersonal relationship, though the extent of the board's function remains low, which makes the country club board style similar to a rubber-stamp board (Tricker, 2009b). Following the country club style, the firm generally holds a formal ceremony for members of the management team and BoD to establish interpersonal relations. Generally, there is a belief in some firms that the intensified interpersonal relationship among the management team and BoD members plays an important role in the success of the firm.

According to this school of thought, some managers and employees of the firm believe that maintaining the best and successful relationship requires tools and equipment like place and position; this thinking results in the furnishing of a boardroom installed with pictures in sepia tone of the prior chairmen and principals and selective sets of exhibit pieces (Tricker, 2009b). Thus, board affairs in a country club style are surrounded by legends and myths, where the pattern of meetings always remains similar and follows the same uniformed sequence and process. Innovation and creativity as elements of intellectual capital in country club style are set aside as the emphasis remains on following the long-established traditions (Tricker, 2003).

REPRESENTATIVE BOARD

The Representative board, unlike the country-club board, emphasizes highlighting the board functions rather than focusing on the building of interpersonal relationships; this implies that relationship preferences in the representative board remain low as portrayed in the above Fig. 1 (Tricker, 2009b). In the representative board, the BoD is elected by the shareholders of the firm (Razaee and Riley, 2009). Members of the board are selected with an expectation that they give uncompromising focus on the performance of the firm and remain loyal to the shareholders' interests (Kaen, 2003; Recalde, 2011). Protection of the shareholder's interests refers to the fiduciary responsibility of the board (Recalde, 2011) that influences the firm's performance in different ways; this includes advising, monitoring, overseeing, accessing of resources, formalizing and implementing strategy and managing and solving crises (Lester, 2003). Thus, the board of directors in performing a variety of board functions to back the shareholders' interests, needs to utilize the experiences and expertise of the board members and other resources inside and outside the firm, which refer to the implication of different intangible assets or intellectual capital in the firm and its environment (Lester, 2003).

PROFESSIONAL BOARD OF DIRECTORS

Many functions of the board are legislated by business law, corporate charter and the general meeting of shareholders, while according to the literature, the existence of the different components of intellectual capital significantly influences the BoD's style and performance. The highest concern of the board about the functions and interpersonal relationships is illustrated in the fourth quarter of Fig. 1 as the professional board of directors. The Professional board style assimilates both the board's function and interpersonal relationships (Tricker, 2009b). The Professional board is constructed professionally, as it permits the leadership from the chair. It holds tough-minded discussions among the members of the board, combined with mutual understanding and respect for each other (Tricker, 2009b).

Nicholson and Kiel (2004a) advocated that corporate governance reformed within the firm are initiated through putting pressure on the BoD to improve the firm's performance; this agency theory analogy focuses on control and oversight of the management, as it considers the board as an independent and important entity of the firm's good governance. However, the professional board also considers relationships that are based on the resource dependency theory and stakeholder theory. Simultaneously, these theories focus on networking and relationship functions of the board. Since inside and outside linkages have influence on a different resource of the firm and make way for competitive advantages for them (An *et al.*, 2011; Fontaine *et al.*, 2006; Phillips *et al.*, 2003). Of course, a professional BoD as a significant component of corporate governance, in order to reach the highest rank and be a high-quality board requires some elements and things to be able to reach the fourth quarter of Fig. 1. With that they professionally can consider both aspects of the functions and interpersonal relationships. Members of the professional board comprise wide-ranging individual competencies that make them dynamic and motivate them to work hard to accomplish the targets of the firm (Tricker, 2009b). Ong and Wan (2008) believed that BoDs previously had played passive roles in the firm, while with the emergence and development of new media and the authority of shareholders, they are now being pressured to play a more dynamic role in the corporate affairs of the business so their style has to shift to a professional board style that is concerned with both board tasks and board relations.

IC, in the last two decades, has been defined as a valuable intangible resource, which positively affects the firm's economic value (Bontis, 1999) and firm's performance (Bontis *et al.*, 2000; Cabrita and Bontis, 2008). In view of this, the professional board with various abilities as well as being one of the most important components of intellectual capital (human capital) will help to create value for the firm since the professional board as a critical and valuable human resource has a significant role to play as a representative of the shareholders. This is because, they, as a group create and deliver extra, tangible value to the firm. In this regard, Lawal (2012) asserts that the firm's internal governance mechanism is the 'heart' of corporate governance, which determines the firm's performance; where the BoD is part of the governance mechanism and the agent of the shareholders, that is responsible to direct, manage and supervise the affairs of the business in the best interests of the shareholders (Kaen, 2003; Kosnik, 1987).

Although, the professional board of directors is generally not involved in routine business operations, its role in monitoring and controlling the affairs of the business (resource management) in ensuring shareholders' interests is critical (Monks and Minow, 2008; Rezaee, 2002). As it links directly to determine the fate and performance of the firm in the form of providing inputs for decision making, strategy formulation, policy making, advising and the selection of CEO (Monks and Minow, 2008; Razaee and Riley, 2009). The resource provision function is another function of the board that provides the firm with a range of resources like physical resources, information, financial resources and so on (Withers, 2011). Functions and responsibilities refer to the member's abilities, while firm's performance is linked to different types of capital (Frozanfar *et al.*, 2011), especially, IC, which determines the effectiveness and efficiency of components of corporate governance such as a corporate board of directors (Nicholson and Kiel, 2003).

The professional board generally refers to a hierarchical or formal chart role, where the BoD sits at the top and remains in contact with the CEO all the time. This style of the board as the intellectual board considers both internal and external relationships for the accessing firm to different resources such as intellectual, informational, physical and monetary capital as well as gathering different ideas from various resources. This kind of board in a hierarchical perspective, operates in one direction controlling the affairs of the firm and cutting the cost of influencing the firm's financial performance as its task concern. This board type coincides with the geological model of corporate governance developed by Hilb (2012) and based on share- and stakeholder approach. On the other hand, the professional board of director's concerns for both board functions (Tricker, 2009b); refer to board performance dimension (Hilb, 2012) and interpersonal relationship (Tricker, 2009b); associated with the board relationship dimension (Hilb, 2012). Thus, the professional board of directors' style can significantly influence a firm's performance in comparison with the other BoD styles.

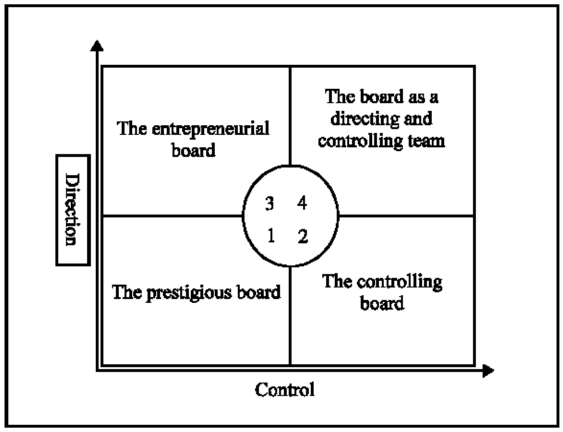

Fig. 2: Development levels of board of directors (Hilb, 2012)

DEVELOPMENT LEVELS OF BOARD OF DIRECTORS

In a similar manner, Hilb (2012) stated that the performance of the BoD depends on how well they govern the direction and control the business affairs (Fig. 2), while the company's performance depends on the extent of good corporate governance in which a dynamic board plays a significant role. The fourth part of Fig. 2 implies the BoD's concern about two aspects of control and direction of the firm as a controlling and directing team. It expands the level of the corporate board of directors that is referred to by Razaee and Riley (2009) as significant and essential components of corporate governance.

The Board as the "controlling and directing team" (Hilb, 2012) coincides with the professional board style of Tricker (2009b). The Professional board style also is matched to the effective board that Clarke and Klettner (2010) in their study described and mentioned. Furthermore, they state and emphasize some essential factors that lead to a change of the BoD from a static board to a dynamic board, from the rubber-stamp board to the professional board and the passive board to an active or effective board style.

Clarke and Klettner (2010) believed that if a firm wants to have an effective BoD, it must consider the following factors:

- A boardroom culture of mutual respect, honesty and openness that encourages constructive debate
- A diversity of experience, styles, thought and, as far as possible, age, gender and nationality
- A good relationship with different stakeholders, in particular the CEO and senior management
- A common purpose and strategic clarity
- An experienced chairperson who can manage the board agenda, encourage debate and work in harmony with the CEO
- An efficient board structure and processes including committees, board papers, information flow and a good company secretary

These changes mostly refer to intellectual capital components which comprise human capital, structural capital, relational capital and spiritual capital on their representative boards by determining important elements of the IC that positively affect the board style, functions and performance.

The board dynamism refers to the application of the components of intellectual capital as it connects strongly to the performance of the firm. This implies that board style is a significant predictor of the firm's performance, whereas the application of the components of the intellectual capital required on the part of the BoD comprises definite core competencies such as strategic vision, logic and planning capability, decision-making capacity, communication skills, political knowledge and networking expertise (Tricker, 2009b). Moreover, the sum of knowledge and experiences, traits, skills, aspects of self-image or social role, values and attitudes is referred to as the components of the competencies (Steptoe-Warren *et al*., 2011).

Therefore, a company, which knows how to provide, arrange and implicate the appropriateness between the board's intellectual capital (board skills, experiences, abilities, relationships, competencies, routines and procedures) and board functions as the significant components of the corporate governance system, generally leads to both construction of a professional board style (Tricker, 2009b) and effective governance and which will eventually relate to the firm's performance (Nicholson and Kiel, 2003). For example, a professional board or a controlling and directing board with relational capital elements is supposed to create good relations with internal and external stakeholders that will influence the firm's performance and help to create opportunities and provide the firm with competitive advantages. This kind of board style which comprises IC components also helps to gather some ideas and suggestions that will affect the method of advising the management and significantly influence a firm's performance in comparison with other firms.

CONCLUSION

In general, most organizations and companies are governed by the BoD. In this sense, the success of the firm is mostly determined by an effective board as a key component of corporate governance. In fact, the existence of the BoD is essential for high corporate performance. In view of this, the board's position is in the driver's seat and not just as a rubber stamp. This view is further affirmed by scholars who have pointed out that the board should play a stronger role in strategizing. When a firm has varied intellectual board members, each board member can be seen as an agent for owners who supervise executives on behalf of the shareholders interests. They are expected to focus on giving uncompromising and absolute loyalty to shareholders and their interests because one of the fiduciary functions of the BoD is to respect and protect the interests of the stakeholders.

Consequently, the BoD's style is mainly related to the existence or lack of intellectual capital which comprises human, structural, relational and spiritual capitals. If a firm wants to have an effective BoD, it must consider the presence of "intellectual capital" on their representative board. Moreover, if a corporate BoD possesses such IC, it will have the ability to change and transform in accordance with the needs of the firm and in the context of the market. Should the needs arise, therefore, the BoD can change from being a "static board" to a "dynamic board"; from a "rubber-stamp board" to a "professional board", meaning transforming from being a "passive board" to an "active and effective board". Such ability to change board style and board functions will allow the firm to maintain a competitive edge over its competitors and enhance its performance.

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