***Corporate Governance and Sustainability***

**Sample Article Briefing Sheet**

**Corporate Governance Article Presentation Brief**

**1. Article Information**

* **Title**: *A Theory of Friendly Boards*
* **Authors**: Renée B. Adams and Daniel Ferreira
* **Journal / Year**: *The Journal of Finance*, 2007

**2. Research Motivation & Question**

* **Motivation**: Conventional governance theories argue for independent boards to reduce managerial opportunism. However, empirical evidence on the effectiveness of board independence is mixed.
* **Research Question**: Can less independent or “friendly” boards actually improve governance by enhancing communication and information flow between the CEO and the board?

**3. Theoretical Framework**

* **Theory Used**: Agency theory and informational asymmetry framework.
* **Contribution**: Proposes a formal theoretical model where board independence creates a trade-off between *monitoring* and *advising*.
* **Hypotheses**:
  + H1: CEO-friendlier (less independent) boards may improve firm performance by encouraging better information sharing.
  + H2: Optimal board independence depends on the firm’s need for CEO-specific information.

**4. Data and Methodology**

* **Note**: This is primarily a theoretical paper, not empirical.
* **Method**:
  + Constructs a game-theoretic model to compare outcomes under friendly vs. independent boards.
  + Simulations and comparative statics are used to derive implications.

**5. Key Findings**

* In the model, overly independent boards may reduce the CEO’s willingness to share valuable private information, leading to suboptimal decisions.
* Boards that are too friendly may fail to discipline the CEO.
* There exists an optimal level of independence where the board receives sufficient information without losing oversight capacity.

**6. Implications**

* Challenges “more independence is always better” assumption in governance codes.
* Highlights that **board effectiveness is context-dependent**, especially in high-innovation or high-uncertainty environments.
* Provides a theoretical rationale for empirical findings that show no strong relationship between board independence and performance.

**7. Critique & Questions for Class**

* **Strength**: Offers a rigorous theoretical model that fills an important gap in the literature.
* **Limitation**: No empirical validation—does the model hold in real-world settings?
* **Discussion Question**: Should corporate governance codes allow firms more flexibility in board design based on industry characteristics?