CORE CORPORATE GOVERNANCE DILEMMAS FACING BOARDS

Hyram Serretta

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2004

ABSTRACT

Directors and boards currently face many complex challenges in times of diversity, change, competition and regulation. A key factor of success in practicing good corporate governance is the board's ability to cope with paradox. The purpose of this research has been to explore the core corporate governance dilemmas facing boards. Furthermore, the purpose of the study was to determine best practice for managing paradox in the context of corporate governance.

The investigation was qualitative in nature. Content analysis was done on the results and the constructs identified by sample respondents were compared to the literature.

The main finding was that there are six core corporate governance dilemmas facing boards and that boards require specific competencies in order to cope with these dilemmas. Eight competencies were identified.

These findings were summarised in a model that provides a consolidated view of the core corporate governance dilemmas and of what competencies of the board contribute to coping with these dilemmas. The model provides a tool for directors wishing to shape their boards to manage paradox and specific core corporate governance dilemmas facing them.

DECLARATION

I, Hyram Serretta, declare that this research report is my own unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Hyram Serretta

15 October, 2004

ACKNOWLEDGEMENTS

I wish to express my sincere thanks and appreciation to:

- Mike Bendixen, my supervisor, for his assistance and guidance in the preparation of this report and most importantly for his continuous encouragement;
- Margie Sutherland, for her opinions;
- all participants on the panel who contributed data to the study;
- my wife, Ivone, for her love and understanding;
- my parents, for their support and encouragement;
- my good friend Ian Greager for proof reading my research report; and
- my father for proof reading my research report.

TABLE OF CONTENTS

Page no.

LIST OF TABLES

LIST OF FIGURES

Page no.

LIST OF APPENDICES

Page no.

CHAPTER 1: INTRODUCTION

1.1 Purpose of the Study

The purpose of this study is to explore the core corporate governance dilemmas facing boards. More specifically, the intent is to identify core dilemmas, to rate these dilemmas and to identify best practice for coping with these dilemmas with the view to providing directors with focus regarding their roles and responsibilities.

1.2 Background to the Problem

Corporate governance can be defined as being "…concerned with the processes by which corporate entities, particularly limited liability companies, are governed; that is with the exercise of power over the direction of the enterprise, the supervision and control of executive actions, the concern for the effect of the entity on other parties, the acceptance of a duty to be accountable and the regulation of the corporation within the jurisdiction of the states in which it operates" (Tricker, 1984:8). This particular view of corporate governance incorporates the themes of direction, control and supervision of executive actions and the effects of these actions on all parties concerned.

The view is also concerned with the legislative implications of corporate governance. Tricker (1984) sees corporate governance as the provision of strategic direction whilst controlling the actions of executives within the boundaries of regulation and accountability. Tricker (1984) suggests that interests outside of the corporate boundaries perform this function of basically ensuring that the organization is run properly. This view of corporate governance is aligned to the definition of corporate governance provided by the King Committee on Corporate Governance (1994), which asserts that corporate governance is concerned with a particular system by which organizations are controlled and directed.

Garratt (2003) holds a view that is more aligned to the demands of shareholders and stakeholders inside and outside of the organization by defining corporate governance as the appropriate structures, processes and values of the board of directors to cope with these demands, which are changing rapidly. According to Garratt (2003), the structure of the board should be self-correcting and conducive to debate, learning, adaptation and continuous development.

Tricker's (1984) view is based on the control and direction of an organization with concern for other parties and the jurisdiction of the state. Garratt's (2003) view, however is concerned with the flexibility of control processes and structures and the ability of the board to learn, develop and adapt through its governing structures and processes in correlation with the demands of all stakeholders. Coyle's (2003) definition of corporate governance draws on both views held by Tricker (1984) and Garratt (2003) in that corporate governance refers to the practices and procedures adopted to ensure that the company is governed correctly so as to achieve its objectives which could include the maximization of wealth for its owners, the shareholders.

Kendall & Kendall (1998) are more concerned with the relationships between management and shareholders and the responsibilities of shareholders in ensuring that management takes decisions that reflect good governance in areas of business and areas outside of business such as social responsibilities. Kendall & Kendall (1998) also introduce the concepts of morals and ethics, stating that corporate governance also means that the organization is a moral agent. The ideal scenario for corporate governance is that all parties possess an equal share of corporate decision-making and do so in an ethical manner. This view is summed up by Kendall & Kendall (1998:20) who state "This would require an effective, democratic system capable of finding a balance between often conflicting interests, but if this can be achieved it will prevent any one party abusing the company. This is possible because with this sharing of company planning and direction, comes shared responsibility and accountability. In this ideal scenario, everyone is accountable to each other."

Cadbury (1999) provides a definition for corporate governance that is most appropriate to this research and deftly incorporates all definitions mentioned thus far, whilst succinctly sketching an appropriate view of corporate governance in order to understand how and why directors encounter corporate governance dilemmas in their roles and responsibilities as board members. Cadbury (1999) suggests that corporate governance is about managing two balances, one between economic and social goals and the other between individual and communal goals. Cadbury (1999) believes that the governance framework encourages the efficient use of resources and requires accountability for the stewardship of those resources. Finally, he asserts that the aim of corporate governance is to align as closely as possible the interests of individuals, businesses and society.

The expectations and tasks of directors within the corporate governance process often lead to the necessity to manage dilemmas to hold an adequate balance between social goals and economic goals and between communal and individual goals and to align the interests of the organization, society and all stakeholders. According to Garratt (1996) dilemmas arise due to the complex role of directors, part of which entails dealing with many decisions that are contradictory in nature. Typically, dilemmas are defined as two extreme options, elements or propositions that are opposite to each other and imply conflicting gains. A middle ground, a balance or trade-off must be achieved between these options, elements or propositions (Minkes, Small & Chatterjee, 1999; University of Cambridge, 2002; Carter & Lorsch, 2003; Garratt, 2003 and Hampden-Turner, 2003).

Sundaramurthy & Lewis (2003) highlight that the governance of a modern corporation is an intricate challenge in that it is characterised by competing needs and perspectives and that it is imperative that these competing needs be embraced in practice and theory. Sundaramurthy & Lewis (2003) believe that it is important that current governance issues be reframed to move beyond either/or thinking thus advocating a balanced perspective. They trust that it is necessary that future research be conducted to understand the dynamic balance among governance imperatives. George (2003) supports the notion that governance of a corporation is an intricate challenge and refers mainly to the competing interests of stakeholders that continually confront directors and require concurrent fulfilment through a balanced approach.

Carter & Lorsch (2003) assert that unresolved contradictions in board design have never been acknowledged. For example, Carter & Lorsch (2003) indicate that boards will struggle to be truly independent whilst achieving an adequate understanding of the business of a company. Carter & Lorsch (2003) draw attention to the fact that such contradictions have not made it onto the radars or agendas of boards. Board best practice may seem sound, sensible and encouraging but operating under it may diminish the effectiveness of boards due to the contradictions embedded in its logic (Carter & Lorsch, 2003).

Whilst further research is required to understand the dynamics of competing demands in corporate governance, there is also a need for further research contributing to the management of paradox in the world of corporate governance. This subject is adequately covered by management literature (Richardson, 1995). The subject is not adequately covered by corporate governance literature. Directors need to be made aware of how to manage dilemmas inherent in their roles and responsibilities.

A number of corporate governance dilemmas facing boards are not related to the monitoring roles directors perform but to the resource, service and strategy roles they fulfil. Daily, Dalton & Cannella (2003) suggest that more productive results can be achieved by future research that focuses on the business roles directors perform.

In light of the current status of research concerning corporate governance, the roles directors perform and the competing demands that they are continually compelled to address, the current study will explore corporate governance dilemmas and their dynamics with respect to the monitoring roles and to the business roles that directors fulfil.

1.3 Problem Statement

<u>1.3.1 Main Problem</u>

The purpose of the research is to identify and rate the core corporate governance dilemmas facing boards.

<u>1.3.2 Sub Problems</u>

<u>The first sub-problem</u> is to identify the core corporate governance dilemmas facing boards.

<u>The second sub-problem</u> is to rate the core corporate governance dilemmas facing the boards.

<u>The third sub-problem</u> is to derive best practice suggestions for coping with the core corporate governance dilemmas.

1.4 Significance of Study

This study helps to explore core corporate governance dilemmas facing boards. The results of the research can be drawn on by both executive and non-executive directors to bring about focus in their roles and responsibilities as members of the board. The research takes cognisance of these corporate governance dilemmas and may enhance the probability of success of boards regarding good governance of their companies. The results of the research can also be drawn on for conducting further research into this field. What is more, this study will identify and explore core corporate governance dilemmas that are distinctive to South African companies.

As stated above, a number of corporate governance dilemmas facing boards are not related to the monitoring roles directors perform but to the resource, service and strategy roles they fulfil (Daily *et al*, 2003). It is for this reason that this study will include the exploration of core corporate governance dilemmas in this context.

The results of the research will be of value to academia. Corporate governance is a very topical concept, which enjoys the scrutiny of rigour by academics around the world. This research may result in a base understanding of the issues related to corporate governance dilemmas and may provide a springboard for further academic research in the context of corporate governance practices.

<u>The study fills a gap</u>. Although much has been published on corporate governance structures in other countries and in South Africa (Schmidt, 1987; Charkham, 1995; Garratt, 1996; Brownlee, 1997; Kendall & Kendall, 1998; Burton, 2000 and Wixley & Everingham, 2002) and little on the dilemmas of corporate governance (Institute of Directors, 1995 and Garratt, 1996), nothing was found in any peer reviewed journals with regard to the relative ratings of corporate governance dilemmas or with regard to best practices adopted to cope with these dilemmas. No academic research has been found in South Africa on the management of corporate governance dilemmas. The information acquired in this research fills a gap that currently exists.

<u>The study provides guidance to board directors in South Africa</u>. Many organisations are currently grappling with the issue of corporate governance and the issue of core dilemmas facing directors in their decisions within the corporate governance process. This study provides valuable information in helping organisations address these issues.

1.5 Delimitations and Limitations

1.5.1 Delimitations

The scope of the study was limited to the corporate governance dilemmas, structures and processes of South African boards. No attempt was made to investigate corporate governance dilemmas, structures and processes of organisations' boards in other countries unless they posses subsidiaries or branches in South Africa.

1.5.2 Limitations

This research process was a Delphi research process performed in the functional paradigm. The following limitations applied:

- Elected respondents had the required experience to answer the research question. The researcher did not attempt to ensure that the sample was random and representative of the population;

- The research was limited to exploring the problem from the perspective of the board of directors, corporate governance academics and consultants. No attempt was made to explore the problem from the perspective of employees of the South African companies other than the directors of the board;

- The research only attempted to identify and explore corporate governance dilemmas encountered by the board. No attempt was made to identify any other types of dilemmas not associated with corporate governance;

- The role of the board was considered in terms of individual roles, responsibilities and duties according to law. The research focused on the role of the board and its directors in terms of activities only. The orientation was therefore on process and not on structure or law;

- The study only considered structures, processes and competencies for coping with the corporate governance dilemmas. No attempt was made to explore the problem with reference to alternative mechanisms for coping with the dilemmas; and

- The study was limited to a sample of companies in South Africa or to subsidiaries or branches of international organizations in South Africa.

1.6 Definition of Terms

The following definitions are relevant to this research:

Company: "The company (sometimes referred to as a corporation) is the most important form (in terms of size) of business organization in South Africa" (Ross, Westerfield, Jordan & Firer, 2001:6). Ross *et al* (2001) assert that a company is a separate legal 'person' or corporate form of organization that is distinct from its owners and possesses many of the rights, privileges and duties of an actual person.

Board of directors: A board of directors is a committee of members of an organisation that is elected by members in a general meeting and has clear collective responsibilities for the running of the organisation (Institute of Directors, 1964 and Hartley, Firer & Ford, 2000). Garratt (2003) offers a more encompassing definition by stating that the board is an intelligent buffer between owners and managers of a company to test manager's strategies and to police the stewardship of company resources by management.

Executive director: An executive director is an individual responsible for the daily management of an organisation and / or is an individual that is a full-time salaried employee of a company and / or of any of its subsidiaries (Hartslief, 2003).

Independent director: An independent director is a non-executive director (Hartslief, 2003).

Non-executive director: A non-executive director is an individual that is not involved in the daily management of an organisation and is not a full-time salaried employee of the company or of its subsidiaries (Hartslief, 2003). The non-executive director must be detached from the company and must exhibit objectivity and independence when considering the company's affairs (Wixley & Everingham, 2002).

Linear thinking styles: Linear thinking styles have a preference for addressing external data and processing this through logical, rational thinking to produce knowledge, understanding and decisions (Vance, Groves & Paik, 2003).

Non-linear thinking styles: Non-linear thinking styles have a preference for addressing internal feelings, sensations and impressions and processing this through conscious or subconscious thought to produce knowledge, understanding and decisions (Vance *et al*, 2003).

Corporate governance: Corporate governance can be defined in many ways and is discussed in more detail in Section 1.2, prior to a formal definition being provided.

Dilemma: Dilemmas can be defined in many ways and is discussed in more detail in Section 1.2, prior to a formal definition being provided.

1.7 Assumptions

The first assumption was that although different models for board processes, structures and values exist, this would not influence the validity of the study;

The second assumption was that the selected respondents would be members of boards of directors and corporate governance academics and consultants and knowledgeable about corporate governance thus enabling them to identify a complete list of corporate governance dilemmas.

The third assumption was that the Delphi method would ensure that consistent results were produced.

The fourth assumption was that no inherent bias would be brought about by the profile of the selected respondents.

1.8 Subsequent Chapters of the Research Report

The chapters of the research report are structured as follows:

Chapter 2 initially incorporates a review of corporate governance in general with reference to the relevance of corporate governance, the role of the board and corporate governance structures in different countries. The literature review concludes with an in-depth description of four corporate governance dilemmas encountered by boards.

Chapter 3 presents the research questions related to the research problem and its sub-problems.

Chapter 4 describes the qualitative research methodology employed in this study. This description includes sampling methods, research instruments and the processes that were used to collect, analyse and interpret the data.

Chapter 5 presents and interprets the results of the study, relating them to the literature and evaluating them with respect to the research questions. The validity and reliability of the results are also discussed.

Chapter 6 presents the main findings of the study, accompanied by recommendations in the form of a conceptual model and implications for boards. The chapter concludes with suggestions for further research.

CHAPTER2: LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the literature used to derive the questions against which the research was conducted. This will be referred to extensively during the data collection process. The chapter sets out with a clarification of the relevance of corporate governance. This clarification sets the context for the necessity to manage corporate governance dilemmas to hold an adequate balance between social goals and economic goals and between communal and individual goals and to align the interests of the organization, society and all stakeholders. The chapter also covers the role of corporate governance and a description of the models available and the tasks of the board of directors. The sections concerning the various models of corporate governance in different countries and those concerning the tasks of the board provide the contexts from which corporate governance dilemmas emanate and a sense for why certain dilemmas might be relevant in some countries and not in others.

What follows is a description of four universal corporate governance dilemmas that challenge many boards of directors in a global sense. This lays down the foundation for further exploration of these corporate governance dilemmas and the possible identification of further examples of dilemmas that can be classified as falling within the realms of the four identified corporate governance dilemmas. In terms of further exploration of these dilemmas, the following facets may be addressed:

- the drivers of each dilemma;
- the dynamics of each dilemma;
- difficulties in managing each dilemma with relevance to the definition provided in Section 1.2;
- the reasons each dilemma might not be a dilemma according to the definition provided in Section 1.2; and

- real life examples of dilemmas experienced in companies around the world.

As stated previously the purpose of this study will be to explore the core corporate governance dilemmas facing boards of companies.

2.2 The Relevance of Corporate Governance

2.2.1 Introduction

This section forms the basis for why it is so necessary to manage the corporate governance dilemmas identified in this study. Management of the core corporate governance dilemmas contributes to the process of achieving good governance. The relevance of corporate governance is outlined below.

2.2.2 Survival and Sustainability

Higgs (2003:11) states "Governance shortcomings have contributed to falling markets. The combination of the two has in some cases been the trigger for corporate collapse." In support of this point, Hartslief (2003) suggests that sound governance can avoid the unnecessary decline and collapse of a company.

2.2.3 Possible Investment Opportunities

Research on corporate governance and investors has highlighted the pertinence of corporate governance in the eye of the investor. This section presents information to corroborate this.

Global institutional investors are willing to pay a premium for shares in well-governed companies over poorly governed companies but with a comparable financial record (Wixley & Everingham, 2002).

Global institutional investors regard board practices to be just as important as financial performance in evaluating companies for potential investment (Sheng, 2003).

The premiums that investors are willing to pay for well-governed companies are greater in emerging markets than they are in developed countries (King Committee on Corporate Governance, 2002). Myburgh (2003) corroborates Mervyn King's views that South African companies must demonstrate impeccable governance standards in principle and in practice so as to attract emerging market global investors. Evidence of the importance of corporate governance regarding premiums investors are willing to pay for good governance was acquired from a corporate governance survey by McKinsey & Company in 2000 and is illustrated in Table 1 (Naughton, 2002).

Table 1: The Average Premium Investors are Willing to Pay for Good Governance (Selected Countries)

Country	Premium (%)
Venezuela	28
Indonesia	27
Thailand	26
Malaysia	25
Italy	22
Japan	20
Germany	20
United States of America	18

Source: Coombes & Watson cited in Naughton (2002:3)

Garratt (2003:41) provides another important dimension to this argument as he states, "Why should they worry? Mainly because internationally investors are becoming much more choosy about where to put their money, especially in a recession", in an attempt to emphasize that international investors are criticising weak corporate governance practices which constitutes the negative dimension of the investment decision, and that they are attracted by good corporate governance practices, which constitutes the positive dimension of the investment decision. The positive dimension is illustrated above in Table 1. As highlighted in the survey by McKinsey & Company in 2000 in light of investment, companies must consider both the effects of criticism and of a lack of attraction due to poor corporate governance standards and practices.

2.2.4 Serving Stakeholder Interests in Transparency, Accountability and Conformance

Tricker (1984) believes there are two reasons for considering corporate governance. These include the fact that companies need to be regulated in society through conformance so as avert any abuses of corporate power without restraining flexibility, risk-taking and innovation and that the quality and activities of boards need to be constantly improved. Shareholders, stakeholders, staff members, trade unions, suppliers, local communities and protectors of the environment and the public are demanding accountability, probity, and openness (Garratt, 2003). These values are the values of corporate governance, thus corroborating the necessity for and consideration of corporate governance in organisations today.

Wixley & Everingham (2002) assert that good corporate governance is not a guarantee against failure for organisations but that it ensures adequate disclosure of risks undertaken and that in the event that businesses run into difficulties, the risks are handled with integrity and wisdom and that they are handled in the best interests of the enterprise and communicated adequately to shareholders. Higgs (2003) suggests that corporate governance provides the architecture for accountability whereby certain structures and processes ensure that companies are managed in the interests of their owners.

2.2.5 Performance and Shareholder Returns

Bicksler (2003:69) emphasizes the importance of corporate governance by stating, "Good corporate governance increases shareholder returns significantly. There is documented empirical evidence that firms having the strongest shareholder rights have higher corporate equity returns, higher firm market values, higher corporate profits, high sales growth, lower capital expenditures, and a lower number of corporate acquisitions." On the other hand, the value of a company's shares will be negatively affected and the company will experience difficulty in raising new capital if there are doubts about the integrity or intentions of those in charge of the company (Coyle, 2003).

2.3 The Role of the Board

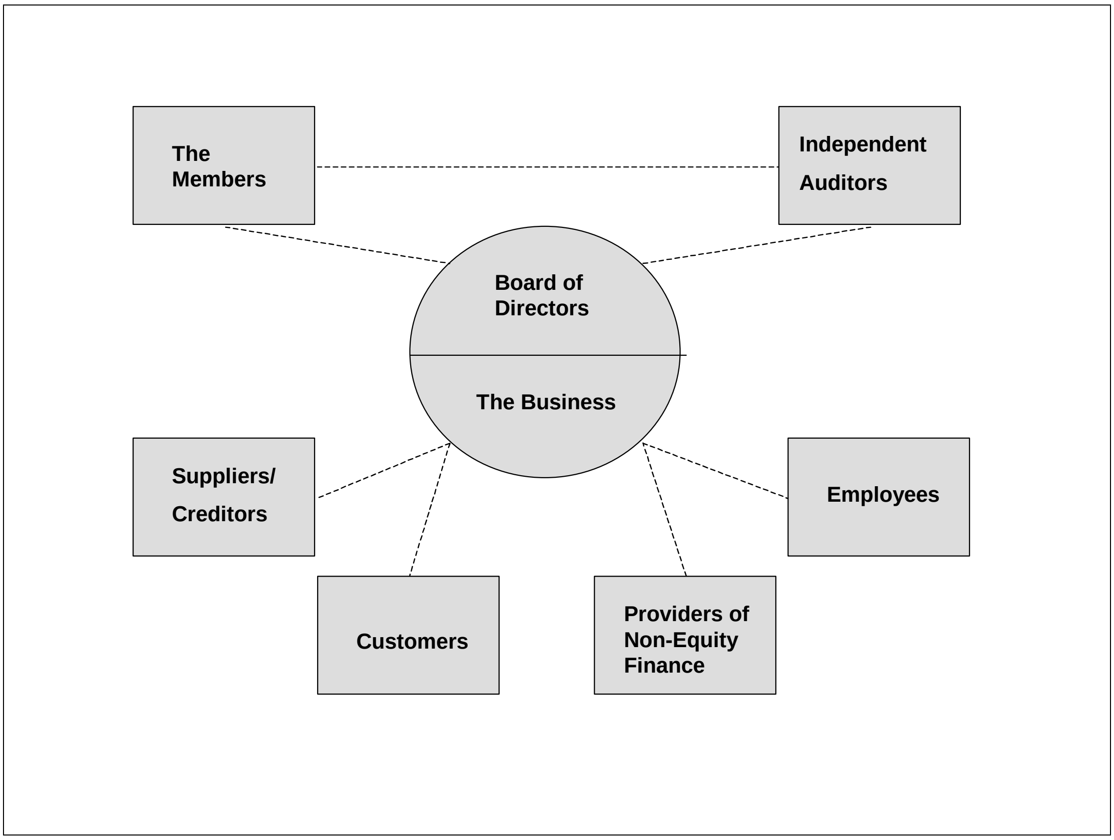
2.3.1 Introduction

The 'role of the board' warrants some clarification as it is by no measure clear-cut and ideas in literature are contrasted with empirical evidence. Tricker (1984:167) alludes to this by saying "Material derived from discussions with directors is used to develop a general model of corporate governance, covering processes that have to be carried out, to a greater or lesser extent, in all companies". This section describes the role of the board as it in this sense explains the existence of the four universal and core corporate governance dilemmas previously mentioned and provides a basis for the exploration of these dilemmas in ensuing chapters. Garratt (1996, 2003) also posits that the role of the board can be presented as four interlinked corporate governance dilemmas, which exhibit the dimensions of a dilemma, described in Section 1.2.

2.3.2 Conceptual Model

The conventional models of corporate governance focus on structures and formal procedures. This section attempts to focus on the duties of the board in terms of effective governance of the company and the activities or processes involved. According to Tricker (1984) the conventional model of corporate governance is centred on directors being selected by shareholders and being accountable to them while managing the organisation. This model is illustrated in Figure 1.

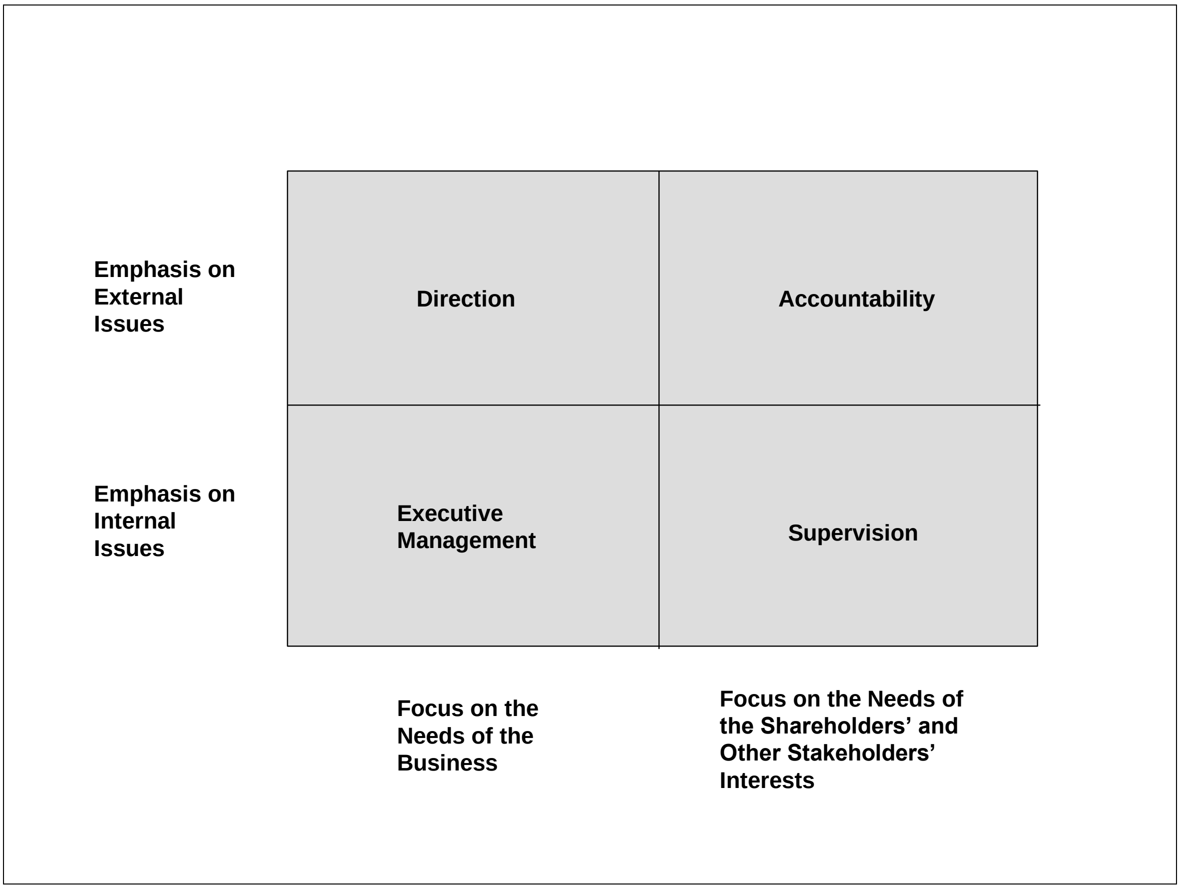
Figure 1: Conventional Corporate Governance Model



Source: Tricker (1984:14)

Tricker (1984) proposes a model that illustrates the activities and processes that the board is ultimately responsible for. This model is illustrated in Figure 2.

Figure 2: Conceptual Model of the Activities of Corporate Governance



Source: Tricker (1984:174)

Corporate governance literature largely supports this conceptual model albeit some slight variations. Tricker (1984) therefore suggests that the principal activities of the board include:

- direction;
- accountability;
- supervision; and
- executive management.

Direction entails the formulation of corporate strategies for the future of the enterprise and for the acquisition and allocation of resources. This is geared toward the mission of the enterprise and takes cognisance of the commercial, economic, social, technological and political environments that the enterprise operates in. The principal analysis in this activity is that of external threats and opportunities and of the strengths and weaknesses of the internal resources of the enterprise.

Executive management is associated with short-term operational issues emanating from the running of the business. These issues include matters of finance, production, motivation, leadership, industrial relations, procurement and market management and performance thereof aligned with the strategic direction of the enterprise.

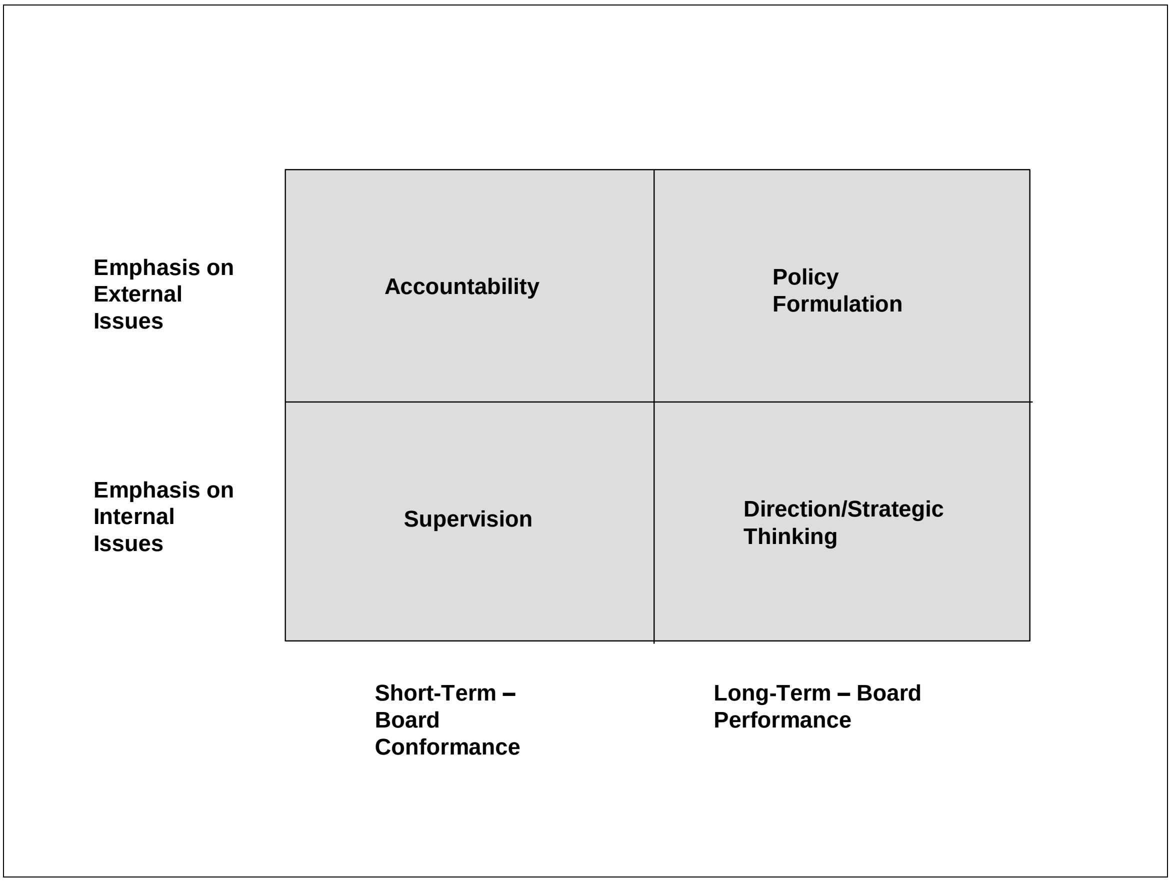
Supervision is a process of monitoring executive action so that it is appropriate to the interests of shareholders and stakeholders.

"Accountability is the response to legitimate demands for accountability from shareholders and other interest groups" (Tricker, 1984:176). Legitimacy of the company is established and maintained by this process, which encompasses the disclosure of information by the Companies Act, the stock exchange and other regulatory bodies. Brownlee (1997:16) suggests accountability "…is a response to legitimate demands for transparency from a full array of stakeholders".

The four areas concerning the role of the board are deeply interrelated. As pointed out by Tricker (1984), policies, projects and plans are provided by the process of formulating strategies for direction. These policies and plans guide and constrain executive performance. Executive performance is then monitored and controlled through supervision whilst achieving complete accountability. In the long-term, these processes ensure that the strategic objectives of the enterprise are attained through required direction. These processes also attempt to ensure that the short-term goal of enterprise performance is achieved.

This framework encompassing the four tasks of the board is advanced by Garratt (1996) and illustrated in Figure 3. Garratt (1996) postulates that the setting of policies and strategic activities be separated from the *Direction* quadrant of Tricker's (1984) model and placed into quadrants called *Policy Formulation and Strategic Thinking*. Garratt (1996) also places the *Executive Management* components of Tricker's (1984) framework into the *Supervision* quadrant. Garratt (1996) then divides the framework into two halves, namely *Conformance* and *Performance*. Conformance encompasses the aspects of accountability and supervision in that conformance to legislation, regulation, shareholder wishes, cash flow and budgets is maintained. Performance entails policy formulation and strategy formulation, which collectively maintain a sustainable competitive advantage for the enterprise in its relevant markets.

Figure 3: Garratt's Advanced Model of Corporate Governance



Source: Adapted from Garratt (1996:45)

The four principal activities of the advanced model comprise the following (Garratt, 1996):

Accountability: Entails reporting to shareholders, ensuring compliance with regulatory bodies, ensuring statutes are upheld and the reviewing of audit reports.

Supervision: Ensures that executive performance and business results are reviewed and that budgetary control is monitored whilst performing corrective actions.

Strategic Thinking: A corporate governance action that involves the formulation of strategy, the setting of corporate direction and the reviewing of initial strategic analysis.

Corporate Policy: A long-term action involving the approval of budgets and the creation of corporate culture. This action of the board also entails the determination of compensation policies for senior executives.

The central tenet to these arguments above concerning the role of the board is that they only consider the processes or activities of the board and not the structures, legal duties and specific roles and responsibilities.

Corporate governance literature also supports the view that the paramount activity of the board is to appoint, evaluate and compensate the CEO (Schmidt, 1987; Brownlee, 1997; Kendall & Kendall, 1998; The Business Roundtable, 2002 and Wixley & Everingham, 2002). Some literature also supports the view that the board must appoint and approve the appointment of senior managers to ensure that the strategies of the enterprise are carried out to sustain competitive advantages (Kendall & Kendall, 1998 and The Business Roundtable, 2002). Others support the view that the board is only involved in the approval of management selection and not in the election process itself (Schmidt, 1987; Brownlee, 1997 and Wixley & Everingham, 2002).

Literature is not very clear about the role of the board in terms of the strategic decision-making process. Although it is generally accepted that senior executive management is responsible for the running of the business and ensuring the enterprise's strategy is implemented correctly, contention about the role of the board and the formulation of strategy does exist. One view is that the directors of the board should be deeply involved in the strategic decision-making process and in the formulation of strategies for the enterprise (Tricker, 1984; Garratt, 1996; Brownlee, 1997 and Sherrer, 2003). Garratt (1996:98) suggests "The strategic thinking is changed into an operational process by the managers in line with policies, strategies and resources decided by the board." Sherrer (2003:87) argues that the reason directors should formulate strategies and not management, is that "This type of closed strategic decision-making process is self-serving and allows management to set the criterion by which their success in meeting the goals of the process is determined." The other view is that the formulation of strategy is the responsibility of executive management and not that of the board of directors (Mace, 1976; Kendall & Kendall, 1998; The Business Roundtable, 2002 and Wixley & Everingham, 2002). Wixley & Everingham (2002) argue that the role of the board is to "…challenge and debate the assumptions on which the strategy is based". They believe that the board gives final approval of the strategic plan and major strategic decisions. The Business Roundtable (2002) suggests that the responsibility of the board is to oversee and understand the company's strategic plans from their establishment through to their development and execution by management.

These contrasting views once again emphasize that the role of the board is by no measure clear-cut and that ideas in literature are contrasted. For the purpose of this research, the decision has been taken to adopt the prior view that the board should be involved in the strategic decision-making and formulation of strategy processes.

2.4 Corporate Governance Structures

2.4.1 Introduction

It is central to this research that the fundamental differences between major corporate governance models be examined so as to formulate a sense for why certain dilemmas might be relevant in some countries and not in others due to the existence of different corporate governance models. This section also develops a context for the corporate governance model applied in South African companies.

It is also valuable to know the different types of corporate governance structures available for organisations to adopt and the reasons for their development in different countries and business environments. In particular business paradigms, enterprises are inclined to adopt particular types of corporate governance models due to influences from external and internal facets of the business, its environment, its ownership structures, its stakeholders, the country's labour force and its executives and management teams. Charkham (1995:174) suggests "…corporate governance holds up a mirror to society in general". It is valuable to understand which board structures perform well in their contexts and which don't and the pertinent reasons for performance or non-performance.

South African organisations have adopted the United Kingdom model of corporate governance and its underlying concepts (Brownlee, 1997). This model is known as the Anglo-Saxon model derived from the UK Companies Act of 1844 (Wixley & Everingham, 2002). The models that will be examined in this section are those of Germany, Japan, United States of America and United Kingdom.

2.4.2 Germany

The German board structure, also known as the ‘Senate Board’ structure, is based on the two-tier board of director system, which has two boards of directors (Brownlee, 1997 and Wixley & Everingham, 2002). The two boards include the supervisory board and the management board. The supervisory board possesses no executive power and is responsible for appointing, approving and removing managers of the board, which include employees and shareholders (Brownlee, 1997 and Wixley & Everingham, 2002). This board is responsible for the actions of accountability and supervision (Brownlee, 1997). “The management board is responsible for the direction and executive action activities, including the day to day management of the company’s affairs” (Brownlee, 1997:21).

Two reasons exist for the creation of the two-tier board. These include the strength of labour unions and the fact that financial institutions appointed a proliferation of members to the board (Brownlee, 1997). Financial institutions did not require board members to become involved in management issues regarding the daily operation of the company and thus preferred to have representatives on the supervisory board only (Brownlee, 1997). The labour unions in Germany succeeded in obtaining representation and this led to the formation of the management board. This board structure is also commonly found in France (Garratt, 1996).

In light of performance, Garratt (1996:41) suggests, “Although theoretically a strong structure, the two-tier, or Senate-style, board performance has not lived up to its expectations, particularly in Germany and France where it is under critical pressure for two reasons.” Garratt (1996) argues that the first reason is attributed to the interests of *independent* board members who are in the supervisory board and are representatives of interlocked shareholders or bankers. These board members are not as *independent* as they should be. Secondly, both boards might lose sight of working towards common goals due to politics that might arise at regional level, national level or at the level of the organisation and its employees (Garratt, 1996).

2.4.3 Japan

The banks in Japan have played a major role in the provision of external capital to 99% of companies, which are unquoted (Charkham, 1995). Japanese corporations are owned largely by big institutions, which are major lenders to the corporations, and the private ownership of shares comprises a minor proportion of equity (Schmidt, 1987). Schmidt (1987:38) also states " The Japanese company is viewed as a social entity with management regarding themselves as being responsible for the interests of the employees as well as for the interests of the shareowners. There is therefore a high degree of unity between management and labour." The Japanese board structure comprises almost entirely of executives with a powerful chairman and executive committee, exhibiting a hierarchy of directors (Schmidt, 1987). The Japanese board structure is also characterized by very little shareholder participation (Brownlee, 1997). The board also has little influence over the selection of a successor chief executive. Evaluation of management occurs through informal contact of the chief executives with major shareholders.

Statutory auditors, which are elected by major shareholders from within the organisation's accounting department, perform the accountability activity and interface with outside auditors in this regard (Schmidt, 1987). The board performs the corporate policy activity. In the event that the implications of such decisions are significant, major shareholders are consulted before a decision is concluded. Compensation for board members is approved at a general meeting and remuneration remains undisclosed (Schmidt, 1987).

The corporate governance system appears to work well but lacks a perspective external to the Japanese culture.

2.4.4 United States of America

The American board structure comprises a chief executive officer (CEO) and non-executive directors with the CEO being the dominant member with an individualistic form of power. The model is a single-tier board structure with the CEO playing a major role in the election of non-executive directors. Shareholders do posses the right to elect the board but this seldom occurs in reality. Other executive members may accompany the CEO on the board but once again, this is not usually the case (Charkham, 1995). In the United States of America (USA) this structure leads to CEO-duality, a concept describing the amalgamation of the role of chairman and CEO instead of having an outside director as chair. In this structure, the non-executive board assumes the corporate policy and direction roles. The policies and strategic objectives are then delegated to the CEO who executes the strategies.

The role of banks in the United States has been central to the corporate governance structures in this country (Charkham, 1995). Banks represent a significant proportion of shareholders in America with many large potential clients possessing credit ratings that are as good or better than theirs. These clients are therefore able to borrow without the help of banks (Charkham, 1995). Banks do still form close relationships with clients. These relationships are based on trust and quality information, thus the need for good corporate governance and accountability. The role of the board is to enforce this beneficial relationship through the provision of good information and good corporate governance. The second most important factor influencing the non-executive board structure is the shareholder. Charkham (1995:199) states "Attention has therefore properly focused on shareholders in respect of the role they were originally designed to play – to ensure that the stewardship of their assets remained up to the mark, not by double-guessing management decisions, but by their interest in the composition of the board." This confirms the right of shareholders to elect a non-executive board of non-executive directors to direct the enterprise and thus the formation of the non-executive board.

Two potential problems arise with this model. The first problem is related to the segregation of CEO and board activities in that the board is tasked with policy and strategy activities while the CEO is tasked with operational activities. Garratt (1996) posits that this often tends to distance the board from operational realities. Second the power of the CEO is highly personalised and the board lacks constructive criticism (Garratt, 1996). The reason that these can be viewed only as potential problems is that empirical evidence does not provide robust support that structurally independent boards lead to improved performance (Burton, 2000). Burton (2000:201) argues, “Indeed there is an accumulating body of evidence that boards where there is heavy emphasis on monitoring of management are associated with inferior performance.”

2.4.5 United Kingdom

The corporate governance model found in the UK is known as the Anglo-Saxon model or the unitary board. This model is also found in many parts of the Commonwealth and in South Africa (Garratt, 1996; Brownlee, 1997 and Wixley & Everingham, 2002). The law dictates the structure of the board in that it must comprise directors that are all equal in terms of the responsibilities and liabilities they accept for the performance of the enterprise (Garratt, 1996). The executive directors led by the chief executive perform the supervision activity of the governance model. They also agree on and execute the enterprise strategies, which are formulated by the independent directors. The independent directors and the chairman also perform the accountability and corporate policy activities of the governance model whilst debating with and constructively criticizing the actions and performance of the executives (Garratt, 1996). The chairman should also be a non-executive (Brownlee, 1997).

“Bankers and other lenders of money are not seen as playing any significant part in the governance of companies. Their role is regarded as strictly limited to lending money on the basis of commercial criteria. Their relationship with the company is a contractual one” (Kendall & Kendall, 1998:52). In the UK, the company is a piece of property owned by it shareholders (Kendall &

Kendall, 1998). The owners (shareholders) have the right therefore to elect and vote out the directors. It is due to the premise that the company is owned by its shareholders that the unitary board structure exists in the UK. “These outside, or independent directors are elected for their wisdom, experience and contacts” (Kendall & Kendall, 1998:52). The reason that these directors are non-executives is that the shareholder desires a disinterested component of the board to provide an expert viewpoint in the running of the organisation. Kendall & Kendall (1998) suggest that their primary goal is to ensure that the chairman is kept in check and on some occasions to play an instrumental role in discarding the chairman in the event that he over steps the mark.

According to Garratt (1996), the drawback of this structure is that a great deal depends on the absolute independence of the executive and non-executive directors. As stated before though, empirical evidence does not provide robust support that structurally independent boards lead to improved performance (Burton, 2000).

2.5 Corporate Governance Dilemmas

2.5.1 Introduction

This section will attempt to describe the four corporate governance dilemmas. An attempt will also be made to explicate the dimensions of each dilemma as outlined in Section 1.2.

The London Institute of Directors (1995) describes the four roles of the board, which Garratt (1996, 2003) refers to as the four ‘Directorial Dilemmas’ of corporate governance. The four corporate governance dilemmas are:

1. The board must drive the business forward in an entrepreneurial manner whilst ensuring prudent control;

2. The board must possess sufficient knowledge of the day-to-day workings of the organisation and answer to its actions whilst being able to stand back from these daily operations and retaining an objective long-term view;

3. The board must be mindful of short-term local issues whilst being informed of often international broad trends and competition; and

4. The board is required to focus on the business' commercial needs whilst operating responsibly to all shareholders and stakeholders.

The four roles appear to be dilemmas, as they seem to be contradictions in themselves and they require an adequate balance between social goals and economic goals and between communal and individual goals. They also require alignment to the interests of the organization, society and all stakeholders.

First, the board must be entrepreneurial and yet maintain prudent control of the organisation. This implies that the board is tasked with performance and conformance roles (Garratt, 1996). The contradiction is that the board is required to simultaneously take risks and be audacious to keep up with the rapid environmental changes whilst remaining accountable to its owners through prudent control.

Second, new executive directors usually encounter difficulties within the business regarding the understanding of jargon and functions and don't in turn question these difficulties in the board so as to not appear ignorant and so as not to encourage questioning of their views by the board. As a result, they fail to develop the skill of applying the 'big picture' view necessary for direction at board level.

Third, some board members tend to get too involved with short-term local issues, viewing this as *real* work and viewing long-term and abstract issues as *abstract speculation*. These abstract issues are however very important for the direction activity of the board in setting enterprise strategies.

Fourth, many directors believe their role is to generate profits for shareholders at all costs thus ignoring their obligations of accountability to key stakeholders like employees, customers, suppliers and society.

In reality no one board member is capable of coping with all board roles simultaneously and successfully (Garratt, 1996). Boards are also trying to steer between an executive director-dominated board focusing on operational issues and an independent director-dominated board focusing on policy and strategy formulation at the expense of operational concerns.

2.5.2 Stakeholder Groups

A stakeholder is someone that has an interest or 'stake' in a company and is affected by the actions of that company (Hess, 2001 and Coyle, 2003). The company must therefore address stakeholder expectations regarding the behaviour of a company with respect to their interests.

In order to appreciate the complexity of coping with all board roles simultaneously and successfully, one must consider the obligations boards have to their key stakeholders and that key stakeholder groups are large and diverse with many important and diverse concerns and demands, thus exacerbating the complexity of managing dilemmas as corporations struggle to balance the competing interests of stakeholders simultaneously (Hess, 2001).

An example of this complexity is evident in the fourth dilemma mentioned in Section 2.5.1 as boards struggle to generate profits for shareholders (majority shareholders) whilst fulfilling their obligations to society and other stakeholders (like minority shareholders) simultaneously as they seem to be contrasting propositions. The list of potential stakeholder groups and their concerns are illustrated in Table 2.

Table 2: Stakeholder Groups and Important Concerns

Stakeholder Group	Issues of Concern
Customers	Product safety and content; Advertising practices; Trade-off between product/service price and environmental and social issues.
Community	Charitable contributions; Local employment; Impact on environment; Political activity and regulatory compliance.
Employees	Wages and benefits; Health and safety; Training and advancement; Gender issues.
Environment	Regulatory compliance; Emissions and hazardous materials; Waste reduction and recycling programs; Environmentally ‘friendly’ packaging.
Institutional Investors	Financial returns; Good corporate governance.
Shareholders (majority and minority shareholders)	Financial returns; Accurate and timely disclosure of operations and performance; Corporate governance, including executive compensation; Shareholder proxies.
Suppliers	Social and environmental performance; Standards for selecting and monitoring suppliers.

Source: Adapted from Hess (2001:318) and Coyle (2003:9)

2.6 The Core Dilemmas

2.6.1 Core Corporate Governance Dilemma One

The first dilemma is that the board must drive the business forward in an entrepreneurial manner whilst ensuring prudent control. This means that the board is tasked with holding a balance between performance and conformance (Garratt, 1996). This is corroborated by the King Committee on Corporate Governance (2002) that states that a balance must be held between performance and the sustainability of the business of the company and conforming to corporate governance codes and regulations. The substance of this dilemma lies in the board’s legal ‘fiduciary duty’ to hold the company in trust on behalf of the shareholders whilst being entrepreneurial to maximize shareholder value.

2.6.1.1 Drivers of the Dilemma

The most significant driver of this particular dilemma is that directors need to balance corporate governance needs with performance for financial success (King Committee on Corporate Governance, 2002). Corporate governance control should not be a hindrance to performance but should instead enhance performance (Myburgh, 2003). Conforming to best practice standards is not sufficient. In the spirit of good corporate governance and a code of corporate practices and codes, the King Committee on Corporate Governance (2002:9) states "The key challenge for good corporate citizenship is to seek an appropriate balance between enterprise (performance) and constraints (conformance) which takes into account the expectations of shareowners for reasonable capital growth and the responsibility concerning the interests of other stakeholders of the company". The King Committee on Corporate Governance (2002) also suggests that the role and function of the board encapsulates this challenge as a principal requirement, while Garratt (2003) suggests that sustaining this dynamic and changing balance constitutes the essence of effective corporate governance.

Garratt (2003) holds the view that shareholder value is not sufficiently addressed by conformance but that a balance between conformance and performance is required to drive shareholder value. Sharman & Copnell (2003) believe that good corporate governance has real value in its contribution to both business prosperity and to accountability. Another perspective of the balance between conformance and performance involves investors who were found to value good corporate governance practices just as highly as performance when evaluating companies for potential investment (King Committee on Corporate Governance, 2002).

The need for this balance is qualified perfectly by the board's fiduciary relationship with the shareholders by being in a position of *trust*. The Institute of Directors (1964:18) refer to the director and state "…he is trusted by the shareholders to manage their investment; he is trusted by the employees to ensure as far as he is able their security; he is trusted by the company's creditors; he is trusted by his fellow directors. Break that trust to any one of this number and he has compromised himself – and worse he will almost certainly have compromised the company". This is the essence of the dilemma and illustrates the extent to which it concerns the company and all its stakeholders.

The role of the board includes conformance to corporate governance codes and best practices such as risk mitigation and prudent control to ensure responsibility towards all stakeholders such as the control of opportunistic behaviour by management. Conformance is concerned with regulatory compliance and control in terms of fairness, accountability, responsibility and transparency in all acts and omissions. Corporate governance codes, standards and practices apply constraints on management to which adherence is compelled in order to ensure responsibility towards all stakeholders. These responsibilities are also met through integrity of the board (King Committee on Corporate Governance, 2002). Garratt (2003) suggests that board conformance is concerned with regard for the law, sound accounting practices, efficient operational control and continuous assessment of the company's capability to deliver the strategy developed by its leaders. Tricker (1984) states that the role of control and conformance concerns the regulation of companies in society, thus preventing abuses of power. Tricker (1984) emphasizes the need for checks and balances to mitigate hardship, reduce turbulence, and to respond to human greed and fallibility.

The drivers of conformance are also directed by a less powerful measure of stakeholders, namely customers, employees, government and society and by the codes and practices of corporate governance. Another factor that has played a significant role in driving the need for conformance, according to Coyle (2003) is the recent spate of corporate failures. Coyle (2003) believes that recent corporate collapses could be a result of dishonest management but that it is more likely that these collapses are due to failure to carry out board duties adequately.

Shareholders need to feel confident that boards are aware of company risks and that corporate governance provides a system for monitoring and controlling these risks. Marks (1999) suggests that the separation of ownership and control produces additional costs due to adverse selection and moral hazard and that the enforcement of fiduciary duties and control through corporate governance codes and practices mitigates these costs to some degree. Daily, Dalton & Rajagopalan (2003) note that the separation of ownership and control could potentially cause disinterested managers to appropriate corporate resources for personal benefit at the shareholder's expense and that managers who are agents of the shareholders (principals), according to agency theory, could make decisions that are inconsistent with maximising shareholder value. Marks (1999) provides justification for the need for this control since shareholders typically possess limited legal rights and are thus not able to influence the day-to-day management of the company, or to direct policy, compensation, control and constraint of management behaviour.

As stated above, the first dilemma includes the board driving the business forward in a manner depicting corporate entrepreneurship. According to Zahra (1996), corporate entrepreneurship is concerned with radical product innovation, risk taking, proactiveness, business venturing and 'intrapreneuring' and contributes to organisational survival, profitability, improved performance, growth and renewal. Zahra, Neubaum & Huse (2000) state that corporate entrepreneurship helps companies to enter new businesses, develop new revenue streams and improve profitability and growth. Zahra (1996) also concludes that corporate entrepreneurship describes two dimensions, namely innovation aimed at creating business and ventures and strategic renewal.

Enterprise (performance) emanates from the disposition of the board to engage in risk undertakings and in corporate entrepreneurship for reward in the form of stable, sustainable and profitable growth (King Committee on Corporate Governance, 2002). To illustrate the relationship between performance and corporate entrepreneurship, Zahra *et al* (2000) posit that corporate entrepreneurship is positively associated with the future performance of a company. Sharman & Copnell (2003) also believe that there is a positive relationship between greater risk-taking and shareholder value.

Ownership of companies by powerful shareholders and corporate governance practice detailing the maximising of shareholder value is a potent driver of entrepreneurial behaviour and subsequent company performance. Zahra *et al* (2000) suggest that according to agency theory, powerful owner groups with sizeable stock holdings may initiate significant changes in the composition and conduct of a company's board if directors fail to focus on long-term corporate entrepreneurship. Powerful shareholders include banks, pension funds, and insurance and investment companies (Zahra *et al*, 2000).

2.6.1.2 Dynamics of the Dilemma

This section seeks to understand the relationship between conformance and performance and thus the dynamics and possible consequences of managing a balance between these two concepts. The section will consider the effect of conformance on performance and on factors like company growth, trust, information flow and stewardship that are closely related to performance in the long-term. This section will also consider the effects of an excessive focus on performance only.

Sundaramurthy & Lewis (2003) consider the tensions that emanate from the coexistence of control and collaboration, some of which could affect performance negatively by creating management behaviour that stifles growth and fruition in a company. The central tenet of their argument is that excessive rational controls create tensions like growing distrust between directors and managers. Sundaramurthy & Lewis (2003) contest that these tensions create defences that suppress stewardship and suppress the flow of information, thus polarizing management and the board and curbing the very behaviours that lead to long-term performance and propulsion of organisations to hew heights. It is believed that rational controls suppress higher order aspirations of management thus reducing organisational commitment and enforcing withdrawal and resistance. These results contribute negatively to company performance.

Secondly, Sundaramurthy & Lewis (2003) believe that coercive and constraining controls tend to shift the locus of control from the agent to the principal, reducing the agent's will to comply, creating mistrust and increasing the principal's desire to control. Empowerment is an extension of trust which conformance contradicts. This further induces motivation on the part of the agent to reduce effort and encourages a divide between board and management interests and activities. The result is reduced information flow once again, leading to a fragmentation of understandings of outsider demands and insider's operations, inhibiting learning and risk-taking, a core requirement of being able to drive entrepreneurship and performance for shareholders. As importantly, Sundaramurthy & Lewis (2003) contend that excessive control by outsiders on the board that do not understand internal operations leads to the formulation and use of financial controls rather than subjective strategic controls. Financial controls foster the development of shorter time horizons and the lack of risk-taking behaviour.

The King Committee on Corporate Governance (2002) suggests that the relationship between conformance and performance is one of constraint whereby conformance to governance codes of conduct places constraints on management's endeavours to achieve performance through entrepreneurial behaviour. Corporate entrepreneurship drives performance and is conducive to improving shareholder value through an environment that supports individual and corporate growth, creative skills, quickened company responses to different markets and a culture that fosters cross-functional collaboration thus creating new revenue streams (Zahra, 1996 and Zahra *et al*, 2000). Zahra *et al* (2000) also suggest that corporate entrepreneurship renews company capabilities and increases the capacity to acquire and use new competencies that improve performance and company growth, benefiting shareholders in the long-term.

Excessive control will lead to the exclusive use of financial criteria and controls (Zahra *et al*, 2000 and Sundaramurthy & Lewis, 2003). Zahra (1996) and Zahra *et al* (2000) suggest that an exclusive use of financial criteria will lead to a decline in entrepreneurial activity and that managers will be less willing to take risks. Zahra (1996) and Zahra *et al* (2000) also posit that directors may view venturing as 'opportunistic behaviour' and invest in venturing rather to hedge their company's performance with regards to financial criteria by diversifying revenues, thus stifling internal innovation and entrepreneurship. Venturing is a component of corporate entrepreneurship, which entails entering new businesses in existing or new markets (Zahra *et al*, 2000). This 'opportunistic behaviour' is also viewed as a mechanism to enlarge company size to increase compensation.

Conformance to new accounting standards such as GAAP (generally accepted accounting principles) and reporting standards has the potential to mislead investors. These standards have the potential to affect the financial success of an organisation negatively through unfair presentation, obscuring an accurate view of financial status and through concealing risk by means of conservatism (King, 1992; Cox, 2003 and Livne & McNichols, 2004). Compliance with accounting codes and standards may mislead investors by failing to achieve fairness in the presentation of results. In these circumstances, directors must disclose departures and the nature thereof from compliance requirements. Failure to do so will lead to a negative financial impact on net profits, equity, assets and cash flows (Livne & McNichols, 2004). Circumventing unfair or misleading reporting also incurs legal costs (Livne & McNichols, 2004). Cox (2003) suggests that rules-based corporate governance standards promotes focusing on detail and losing sight of the fact that financial statements should fairly present the financial position and performance of the company. King (1992) is of the view that conservatism in accounting due to new standards for compliance attempts to protect investors from experiencing future losses but in turn also conceals risk, misleading investors who are willing to take risk and are searching for potential investment opportunities.

Other dimensions of control that affect entrepreneurial behaviour and performance are those of time and bureaucracy. Sharman & Copnell (2003) suggest that undue concentration on aspects of accountability, which constitutes part of the conformance mandate, could destroy entrepreneurship and ultimately value. Templeton (2003) believes that conformance runs the risk of burying wealth-creating entrepreneurial risk-taking in a morass of bureaucracy plagued by box ticking. Excessive reliance on corporate governance and due process could cloud a board's judgement, lulling them into a sense of security and preventing them from taking risk and making bold moves at times when entrepreneurial behaviour requires this (Wallis, 2000). The process of conformance requires that directors spend substantial time reading board papers, travelling to meetings and monitoring managers, activities which are very remote from the business the board oversees and tend to trivialise the very important issue of performance (Wallis, 2000).

According to agency theory managers are agents who pursue the maximisation of personal utility and shareholders are principals (Marks, 1999). In order to curb this behaviour of personal utility maximisation, shareholders monitor and constrain manager behaviour. Divergence of manager behaviour is still prevalent as are the costs of monitoring and control, thus contributing to consequent agency costs which undermine efforts to perform financially (Marks, 1999).

As alluded to above, a lack of control could potentially cause disinterested managers to appropriate corporate resources for personal benefit at the shareholder's expense and could cause managers to make decisions that are inconsistent with maximising shareholder value (Daily *et al*, 2003). The lack of control also raises agency costs as managers behave in ways that are inefficient and antisocial (Marks, 1999).

Excessive support for corporate entrepreneurship is often done so at considerable risk to the detriment of shareholders and the success and wealth of companies. Examples of these risks relate to the fact that less than 20% of all new product introductions are successful and that few projects that do survive are not profitable in their first few years. Nearly 70% of all international ventures fail while movement into new markets face risks related to political, social, market and governmental uncertainty (Zahra *et al*, 2000). Zahra *et al* (2000) also illustrate that venturing has a negative effect on Return on Assets (ROA) and on Return on Sales (ROS) while domestic venturing is negatively associated to Earnings per Share (EPS) thus depressing shareholder short-term wealth. The dilemma is accentuated by the fact that venturing is often necessary to achieve growth in the long-term. Entrepreneurial failures also have the capacity to damage executives' reputations and increase their risk of unemployment, thus leading to risk aversion and an excessive focus on constraint (Zahra, 1996).

2.6.1.3 Why the Dilemma Might Not be a Dilemma

An opposing argument can be presented to that of the suggested negative effects of conformance on performance or of the negative effects of control on entrepreneurial activity in firms. The central principle of this argument is that control can be exercised in a manner that earns improved profitability and returns to shareholders in the long run. With reference to the definition of a dilemma in Section 1.2, the basis of this particular argument is that a balance is not the central tenet to managing this dilemma but that there exists a positive causal relationship between control and performance. It suggests that directors' commitment to corporate entrepreneurship and performance can be shaped by the mechanisms of control and conformance, which constitute part of the larger system of corporate governance (Zahra, 1996). Zahra (1996) also posits that strong vigilant directors have the capacity to encourage managers to pursue corporate entrepreneurial activities. As stated previously, entrepreneurial activities can create new revenue streams and enhance shareholder value (Zahra, 1996). Zahra *et al* (2000) put this in another way by suggesting that strong independent directors are able to promote entrepreneurial activity and to support innovation and domestic and international venturing by monitoring and controlling manager behaviour in a prudent and robust manner. It is evident from this that vigilance and robust, prudent and vigorous control can lead to performance.

Boards are compelled to conform to corporate governance standards and practices by virtue of their responsibilities to outside shareholders. As a result, their views are frequently externally based, thus broadening their perspectives and alerting them to promising corporate entrepreneurial opportunities (Zahra *et al*, 2000). In this way, the need to spend inordinate amounts of time focusing externally for the purpose of conformance can contribute to the promotion of entrepreneurial activity through broadened perspectives and through vigorous vigilance of managers in the spirit of corporate entrepreneurship.

2.6.2 Core Corporate Governance Dilemma Two

The second dilemma is that the board must possess sufficient knowledge of the day-to-day workings of the organisation to be responsible for its actions whilst being able to find time to develop a longer-term objective 'helicopter' view of the business and developments outside (Garratt, 2003). The first proposition of this dilemma encompasses the roles of supervisory management (short-term, internally oriented thinking and organisational efficiency), accountability and responsibility (short-term externally oriented thinking and organisational efficiency) while the second proposition of the dilemma encompasses an objective view of the business (long-term, externally oriented thinking and organisational effectiveness) (Garratt, 1996). This means that the board is tasked with developing a long-term 'helicopter' view of the business that is independent of specialist managerial influences and the short-term day-to-day management of the business (King Committee on Corporate Governance, 2002). This implies having sufficient time to build knowledge through an 'inward-looking' perspective as well as an 'outward-looking' perspective. The board is tasked with rising above a perspective restricted to the single-function view and developing a consolidated systemic view of the organisation (Garratt, 1996). In so doing, the board develops an independent view that transcends profit and is in the best interests of the company, ensuring its continued existence.

2.6.2.1 Drivers of the Dilemma

2.6.2.1.1 Detailed Workings of the Business

Sundaramurthy & Lewis (2003:397) succinctly express one of the drivers of this dilemma by stating, “Board members are expected to provide critical judgement on management performance – which requires an in-depth knowledge of, and intimacy with the affairs of the corporation – and at the same time to assure that this judgement is independent.” The essence of this dilemma is that one cannot know everything but one is ultimately held responsible.

In order to be effective in the supervision of management so that directors can be answerable for their actions, they need to be able to be aware of the workings of the business through the analysis of data and the recognition of patterns. Tricker (1984) defines accountability as the requirement to give an account of actions taken by the board and involves more than a reporting of what has been done. Tricker (1984) affirms that accountability includes the requirement to say why and to face the consequences. In order to say why, the board is compelled to understand the business in sufficient detail. Directors cannot manage assets and obtain performance from those resources for owners if they do not adequately understand the organisation in some detail. Suitable systems should provide reliable data for this purpose (Garratt, 1996).

The board must be able to regularly and consistently view the total organisational performance so as to be able to answer to its shareholders. This involves the analysis of detailed data regarding the operations of the business such as staff and customer satisfaction and retention measures and supplier, shareholder and stakeholder feedback measures (Garratt, 1996). Boards need to monitor management with the aid of sufficient information and the means to analyse it (Cornell, 2003). Due to the size of many global corporations, these tasks are mammoth tasks, involving much time spent on short-term informational analysis from a single-function perspective.

Directors are compelled to know the detailed workings of their companies so that they can also fulfil their responsibilities and liabilities set out by the law and so that they can address the mass of corporate governance codes. Director-oriented laws and corporate governance codes are growing rapidly as a result of the anger over behaviours recently headlined in the media. There are for example, at least four hundred laws in the UK defining directors' responsibilities and liabilities (Garratt, 1996).

The needs of shareholders vary from the quite simple such as protection of their investments to quite complicated like increasing shareholder value. These complicated needs entail the analysis and measurement of complicated ratios like Market Value Added (MVA) and Economic Value Added (EVA) (Garratt, 1996). Many companies have adopted this rigorous approach of measurement and this requires that directors are adequately aware of the detailed workings of the company and its scarce resources. The needs of stakeholders appear to be quite complicated and numerous, ranging from product quality, reliability, design for purpose, delivery guarantees, assured maintenance, warranties and customer charters (Garratt, 1996). Boards must ensure that the appropriate ratios and trend lines are built into their supervision of the organisation in order to monitor the progress towards realising these measures (Garratt, 1996). This clearly emphasizes a need for the board to be sufficiently aware of the workings of the company.

Boards need to protect and address the needs of another stakeholder group – employees. Directors cannot make complex decisions about its business and increase shareholder value if they do not understand this set of key assets.
The board is compelled to protect their employees for health and safety reasons and to be aware of the workings of trade unions so as to be able to answer to their owners and one of their key stakeholders, namely their employees (Garratt, 1996).

Boards have to understand the intricate and dynamic relationship between the company and its suppliers so as to ensure that there are no product shortages on the production end and on the customer end (Garratt, 1996).

Detailed workings of the business regarding the effects on society and the environment also need to be understood so that directors can act responsibly towards stakeholders and can answer to owners and communicate with executives regarding issues of corporate social responsibility.

Scherrer (2003) suggests that boards need to be sufficiently aware of the workings of their companies so that they can provide accurate information to their shareholders and detect and understand signals of distress. This will allow directors to address managerial issues in a timely manner. Significant workings of the business that directors are responsible for and must answer for to their shareholders are those of the company’s operational and internal controls and financial operations (Percy, 1995).

2.6.2.1.2 Long-term Objective View of the Business

There are four aspects to developing a long-term objective view of developments outside of the organisation that set a context that takes broad trends and international competition into consideration (Garratt, 2003). Garratt (1996) refers to this function as abstraction. The four major aspects referred to, include:

- purpose;
- vision and values;
- emotional climate and culture; and
- monitoring the external environment.

This proposition of the dilemma is very difficult to address since attending to the detailed workings of the organisation seems more like *real* work.

One of the most significant drivers of this proposition is the need for directors to understand that the company is not a logical machine and that the socio-emotional aspects of the business are crucial in the need to achieve its purpose or reason for being (Garratt, 1996). The socio-emotional aspects include the company’s purpose, the vision and values and the emotional climate and its culture. The other significant driver is the need for the board to position the organisation in all political environments comprising party political aspects, national and regional political aspects, environmental and economic aspects and social, technological and trade aspects (Garratt, 1996). Garratt (1996:57) suggests the ultimate objective by stating "The board has to define a purpose to which all members of the organization can commit, and create an emotional climate within which all the stakeholders want to commit. This is the 'heart' of the enterprise." Suter (2003) posits that sustainability is applied not only to what companies do within their environments but also to how companies see themselves.

According to Garratt (1996) the purpose of an enterprise is the reason for its being and relevance, which provides input into how it can stay within its energy niches. Both the purpose and vision should not be easily achievable, but rather demanding. The vision provides the view of the future, contextualising what it will feel like to achieve the purpose and excludes the immediate expectation of short-term fulfilment such as that that emanates from operational work. Garratt (1996) suggests that values define what is rewarded and punished and thus shape the organisational behaviour. A driver of culture is the need to create an organisational culture that is the fundamental building block of a healthy organisation (Garratt, 1996). The enterprise's purpose is dependent on the emotional climate and culture of the organisation. The three socio-emotional aspects which are purpose, vision and culture all affect the way in which companies draw in information from the outside world as opposed to drawing in information from the daily operational workings of the company (Garratt, 1996). This affects the way in which policies are developed in an independent manner.

Scherrer (2003) suggests that in order to understand and detect business failure, the board must understand the effects of external business environments on business stability and profitability. He also believes that the external environment is uncontrollable and complex and therefore directors prefer to consider short-term internal changes and workings. Negative elements of the external environment that can affect a business include increased competition, rapidly changing technology and economic fluctuations, foreign competition, capital market movements, legal and legislative constraints and non-responsive political solutions (Scherrer, 2003). Enterprise strategy also needs to be integrated with the firm's broader external environment (Hemphill, 1996).

Garratt (1996) believes that the board should be sensitised to the possibilities of the future and that they need to detect signals that may identify future significant change. The need to be sensitive to the external environment is driven by the need to foster greater confidence as the future unfolds (Garratt, 1996).

2.6.2.2 Dynamics of the Dilemma

The first proposition of this dilemma, which includes sufficient knowledge of the day-to-day workings of the organisation, is exemplified by limited time and the rapidity with which business events occur. As a result, it is difficult for directors to keep with their companies, let alone attend to other duties (Carter & Lorsch, 2003). This is why it is difficult for directors to simultaneously focus on the day-to-day workings of the company and on a longer-term objective view of developments external to the company and vice versa.

Carter & Lorsch (2003) reflect on their research to suggest that directors, who do not know enough of the daily workings of the business, do not understand and are not able to approve strategic moves and are not able to judge performance. In order to decide about a company's future, boards need to be able to understand the workings of the organisation that drives strategic success and they need to understand the major issues facing a company (Carter & Lorsch, 2003). A long-term objective view of developments external to the organisation also encompasses the company's future, which therefore requires a fulfilment of the requirement to understand the organisation in detail as suggested by Carter & Lorsch (2003) above. Carter & Lorsch (2003) also reveal that their research confirms that directors, who are not sufficiently informed, are not in a position to contest management's views and do not operate efficiently and effectively. Directors in this position tend to be more reliant on management for information and have generally been slow to respond to warning signs and signals of distress or failure (Carter & Lorsch, 2003 and Scherrer, 2003). This is particularly true when companies go into decline. Scherrer (2003) suggests that business failure occurs in various stages, the heart of which is the internal elements or workings of the company. For example, directors might attribute a shortage of cash to a lack of sales but knowledge of the detail could indicate that the company might be selling products at a price that did not cover variable costs of manufacturing and selling. Internal elements interact with each other and are systemic in nature (Scherrer, 2003). A lack of understanding of all these elements and their interactions fosters behaviour that ignores the signals of failure. Scherrer (2003) contests that increasing problems due to ignorance of signals of failure leads to a severely diminished reputation with suppliers, banks, employees, potential and current customers and stakeholders. A credibility gap can also occur, placing a business in the position of defending itself from internal and external factors and from the loss of esteem in the business community (Scherrer, 2003). Detailed knowledge of the workings of the company enables directors to act and react, a powerful weapon against business decline (Scherrer, 2003).

The fact that directors are more reliant on management is diametrically opposite to what independence is intended to achieve (Carter & Lorsch, 2003). Ultimately, the devil is in the details (Carter & Lorsch, 2003).

Scherrer (2003) reminds us that, in accordance with their fiduciary duties, directors are required to provide accurate information to shareholders. A lack of understanding of the detailed workings of the organisation fails directors in their fiduciary duty to provide accurate information to the shareholders.

Directors that place too much significance on the detailed workings of the organisation however, are too slow to act when encountering performance problems and as a result, the stock price plummets, affecting large institutional shareholders immediately (Carter & Lorsch, 2003). As mentioned previously, the board needs to position the organisation in all political environments comprising technology aspects (Garratt, 1996). This means that directors need to have a reasonable grasp of technology and developments in the external environment. Carter & Lorsch (2003) believe that a lack of a reasonable grasp of technology in the external environment will mean that directors are flying blind regarding strategic issues facing the business.

Directors that place too little importance on scanning the external environment fail to understand early warning signals and symptoms and causes of business decline. Directors also fail to address the impact of these external changes on policy and on how these policies will be implemented by means of strategy (Garratt, 1996). In other words, they fail to adapt to changes in the structure of the market caused by external uncontrollable elements that they do not fully understand (Garratt, 1996 and Scherrer, 2003). Signals that indicate the status of the external environment include economic growth, capital market activity, business population characteristics, market competitive structures, cultural social changes and legal/political changes (Scherrer, 2003).

Failure to address the purpose of a company by focusing only on its detailed workings will mean that the company is not effectively positioned so that its people feel able to align their energies and direct them towards a common goal in the organisation (Garratt, 1996). Employees need clear direction and the emotional climate and resources to get there. Garratt (1996) also posits that a simplistic approach to developing a purpose induces hostility amongst stakeholders, especially staff and customers. “Facing up to, and learning from, the ‘political’ world is a fundamental of organisational survival and the board is central, but not exclusive, to it – many other parts of the organisation can contribute” (Garratt, 1996:57).

Failure to address the vision of the company will foster an environment lacking in excitement and real possibility even in the worst of times (Garratt, 1996). This also diminishes imagination, ambition, thoughts and behaviours that take companies forward without immediate expectation of short-term fulfilment that comes from the operational work at hand (Garratt, 1996). Furthermore, failure to address vision, keeps companies from reframing their thinking about external competition and so becoming more sensitive to their changing positions in the competitive arena (Garratt, 1996).

Values develop an ethical base for the organisation. Failure to develop the ethical values of an organisation makes it impossible for the organisation to sustain long-term relationships with customers, staff, suppliers, legislators and shareholders to the detriment of all stakeholders (Garratt, 1996).

An excessive focus on the detailed workings of the company by directors detracts from the creation of an appropriate organisational culture and thus the retention of key employees and their experience and personal capabilities. This in turn, weakens attempts to retain customers that drive profitability (Garratt, 1996).

2.6.3 Core Corporate Governance Dilemma Three

The third dilemma is that the board must be mindful of short-term local demands whilst being able to balance these against broader regional, national and international trends and competition (Garratt, 2003). Percy (1995) endorses this view by stating that the direction and strategy of a company in the long-term can be at conflict with the daily short-term management of the company. This view entails a balancing of organisational efficiency with organisational effectiveness in the form of the short-term internal supervision of management and long-term strategic thinking respectively. Strategic thinking also entails how policies will be implemented in the long-term by considering broad trends and competition nationally and internationally (Garratt, 1996). The facets of supervision of management and long-term strategic thinking are illustrated in the following table (Garratt, 2003).

Table 3: The Facets of Supervision of Management and Strategic Thinking

Supervision of Management	Strategic Thinking
Overseeing of management performance.	Positioning in changing markets.
Budgetary control and monitoring.	Setting of corporate direction.
Review of key business results.	Keeping an overview of strategic resources.
Assessment of organisational capabilities.	Management and allocation of key resources.
	Execution of strategy.

2.6.3.1 Drivers of the Dilemma

2.6.3.1.1 Short-Term Local Demands

The focus on supervisory management and control has intensified due to the recent collapse of various companies and the escalation of corporate governance problems linked to weak managerial and financial controls. Examples of these companies can be found in countries like the United States of America, Germany and France such as Volkswagen, Barings, Mercedes Benz, Suez, Disney World, IMB and General Motors (Garratt, 1996). Percy (1995) believes that a common thread of business failure was the lack of operational and internal control within companies. This has led to inadequate management information and inadequate financial reporting. Percy (1995) reminds us that it is the director's duty to report on the system of internal control of the company, a system that is short-term oriented.

According to the Institute of Directors (1964), the supervision of management falls under the mandate of the board and constitutes one of the most significant roles of the board. The Institute of Directors (1964) outlines the following roles that fall under the area of supervisory management and require consistent daily attention:

- keeping the business under prudent control;
- being sufficiently knowledgeable about the workings of the company;
- being sensitive to short-term issues; and

- being focused on the commercial needs of the business whilst acting responsibly to all stakeholders.

Siebens (2002) states that a very important aspect of corporate governance is the control of members of the management team while Spira (2001) and Taylor (2003) suggest that it is the board's role to maintain a sound system of internal and financial control in order to safeguard the shareholder's investment and the company's assets. In order to cover all controls, operations and risk, the board needs to attend to the short-term demands of the business. The first proposition of this dilemma is very closely related to the first proposition of dilemma two stated in Section 2.6.2. in that they both fall under the banner of supervisory management. The first proposition of the second dilemma concerns accountability to shareholders and stakeholders while the first proposition of this dilemma is more appropriately concerned with the monitoring and analysis of key performance indicators and ratios, project management, the overseeing of management performance, the monitoring of customer perceptions and the monitoring and control of risk (corporate risk management) (Garratt, 1996 and Scherrer, 2003).

Scherrer (2003) believes that the board needs to review operational and financial information in order to be involved in an active sense and to be aware of the situations in a business that lead to financial distress. He suggests that understanding short-term demands includes understanding matters like employee turnover rates and employee compensation. These rates require understanding as a company with high turnover rates experiences difficulties in attracting high quality employment and inappropriate compensation leads to underperformance, both of which affect company performance to the detriment of shareholders. Cornell (2003) posits that in order to fulfil one of the fundamental duties of helping management to maximise shareholder value and of assessing whether management is doing all it can to increase shareholder value, boards should understand how a company creates value. Being sensitive to the short-term demands of the business can only do this.

In the Anglo-Saxon context, Cescon (2002) suggests that short-term pressures and demands are perceived to come from financial institutions and the market and that corporate governance and financial systems were regarded to have imposed a formidable relationship between performance and the change of performance measurement systems. Cescon (2002) suggests that internal financial measures and ratios used in performance measurement and incentive reward schemes based on short-term profit accounting indicators influenced short-term pressures significantly. This argument simply supports the fact that the necessity to supervise management requires that the board be cognisant of short-term internal demands and demands from the external environment. This external environment includes the system of corporate governance, the financial environment, the product market and degree of competition and the labour market (Cescon, 2002).

A driver of sensitivity to short-term demand is the requirement to meet short-run earnings targets (Graham, Harvey & Rajgopal, 2004). This demand is driven internally by management and externally by investors. Graham *et al* (2004) found that 78% of executives they interviewed were willing to sacrifice economic value for smooth earnings as volatile earnings would reduce the predictability of earnings and therefore the stock price as analysts and investors preferred certainty. This would reduce short-term shareholder value, which directors would have to account for to the owners of the company. Outsiders consider earnings as the key metric and not cash flows, thus imposing the demand from an external basis (Percy, 1995 and Graham *et al*, 2004). The demand is driven internally by executives who believe that meeting earnings targets builds credibility and helps to maintain stock prices, a consequence that shareholders prefer (Graham *et al*, 2004). Meeting earnings targets also affects employee bonuses, bond covenants and stakeholder motivations (Graham *et al*, 2004). Graham *et al* (2004) also found that a negative earnings surprise in debt and equity markets could result in turmoil that leads to undesired short-term costs. These demands are short-term demands as investors and analysts compare earnings on a quarterly basis.

Graham *et al* (2004) suggest that the other external source of this demand is stakeholders like customers, suppliers and creditors who consider the reputation of companies when providing terms of credit and when purchasing products and services.

Internally driven concerns about career motivations also drive this particular demand. Graham *et al* (2004) found that chief financial officers (CFOs) feel that failure to meet short-term earnings targets is seen as *managerial failure* by the labour market and will prevent upward or intra-industry mobility and could result in a job loss. Percy (1995) believes that the demand on earnings is an internal demand whereby directors are afraid of takeovers, should earnings show poor performance.

2.6.3.1.2 Strategic Thinking

As stated previously the need for long-term strategic thinking is driven by the need to maximise long-term organisational effectiveness on the part of the board (Garratt, 2003). Garratt (2003) defines strategic thinking as:

- setting the corporate direction;
- reviewing and deciding on key resources; and
- deciding on the implementation processes in order to execute the strategy.

Wixley & Everingham (2002) echo the view endorsed by the King Committee on Corporate Governance (2002) that strategy formulation and execution are the most important responsibilities of directors. Strategic thinking is not strategic planning and is the role of the chairman of the board. Strategic thinking is continuous long-term internally oriented thinking and matching this internal view with broader regional, national and international trends for the long-term sustainability of the business (Garratt, 1996). It is Garratt’s (1996) view that strategy entails consultation with parties within and without the organisation and that the responsibility lies firmly with the board of directors. The board has to consider long-term trends outside of the business by considering feedback from customers, competitor intelligence systems, national and international legislation, local and wider communities, international economic, political and trade environments (Garratt, 1996). Very importantly, strategic thinking is about "…the ability to make better, more comprehensive, more imaginative pictures of the past, present and future which helps differentiate a board from its competitors" (Garratt, 1996:86).

Strategy in the Asian sense is more about building a set of beliefs about the broader direction in which to go and therefore adopting a mindset of long-term broad thinking (Minkes *et al*, 1999; University of Cambridge, 2002; Carter & Lorsch, 2003; Garratt, 2003 and Hampden-Turner, 2003). If directors are to guide a company and provide direction the board must be aware of the fact that strategic management is also concerned with the entrepreneurial work of the organisation and with organisational growth and renewal (Hemphill, 1996). Hemphill (1996) also states that enterprise strategy is concerned with questions of governance, legitimacy and corporate public policies that integrate the firm with the broader external environment.

Interestingly enough, another driver for strategic thinking emerged as Japanese competition began to make inroads into all markets. The quantification of corporate planning then gave way to the creative approach of strategic thinking for boards (Minkes *et al*, 1999; University of Cambridge, 2002; Carter & Lorsch, 2003; Garratt, 2003 and Hampden-Turner, 2003).

Baysinger, Kosnik & Turk (1991) state that their research indicates that institutional stockholders value capital investments in long-term entrepreneurial research and development projects as firms that announce increases in research and development (R&D) expenditures experience upturns in market value. The investment risks for these investors do not deter them, as they are able to diversify the risk away. The drive for strategic thinking and entrepreneurship is therefore very prominent with institutional investors. Scherrer (2003) is of the view that three institutional forces are at work regarding the board's involvement in strategic thinking. The first is the court system as a corporation is a legal entity governed by law. Courts also support shareholders to pressure boards to get more involved in strategic decision-making. The second force is pension funds that pressure boards to increase oversight and strategic involvement. The third force includes the market for corporate control comprising of lawyers, accountants and public and other stakeholders. They drive involvement in strategic thinking to protect shareholder value and to contribute to the growth of the company. Cescon (2002) confirms that research indicates how the focus on longer-term objectives is driven more by return on sales and market share, which provide value to the shareholder in the long run. This focus is very pertinent to Japanese firms that attribute significant importance to sales growth and market share for lasting success.

Shareholders contribute very meaningfully to long-term strategic thinking as they are more concerned about the longer term and continuing survival of their company and the value of their investments (Coyle, 2003). Coyle (2003) suggests that directors should consider the long-term and not just the short-term as they should consider the interests of all stakeholders and not just shareholders who also desire good short-term returns. Shareholders impose rigorous financial controls, which drive short-termism (Taylor, 2003).

Dimma (1995) and Scherrer (2003) suggest that strategy is at the heart of successful corporate performance and that the board must be involved. Lack of involvement pushes boards further into the management process than is desirable. Dimma (1995) proposes that the best boards of the most successful companies think strategically as a matter of course, as a daily requirement of being an effective director or executive and that strategic thinking improves performance and long run profitability. Scherrer (2003) proposes that a greater involvement of boards in strategic thinking will assist directors in endorsing the accuracy of financial information of their corporations.

2.6.3.2 Dynamics of the Dilemma

An overemphasis on strategic thinking and national and international trends induces consequences that result from not meeting the short-term demands. These consequences have been outlined in Section 2.6.3.1. Furthermore, a consequence of excessive strategic thinking by the board is that management might perceive directors as taking too much of an initiative, thus inducing a sense of de-motivation (Dimma, 1995). An excessive focus on strategic thinking and a lack of concentration on aspects of supervisory management like risk management and control, could force an outcome where supervision of management is not addressed carefully and becomes a black hole into which all the energies of the board are drawn (Garratt, 1996).

If the board of directors is not involved, managers almost always get their own way and this results in plans that are myopic and or misguided or out of touch with new realities or too ambitious or not ambitious enough (Dimma, 1995 and Scherrer, 2003).

On the other hand, Scherrer (2003) believes that a lack of strategic thinking leads to a company operating in an ad hoc manner in which the board loses control and that the results of problems are addressed rather than the causes. As a result, the problem continues, the resolution is short-term and problems resurface with more severity.

Graham *et al* (2004) report that their research findings show that directors sacrifice making long-term optimal decisions and achieving long run value by avoiding short-term turmoil as a consequence of missing smooth earnings targets. A great deal of available evidence suggests that boards that ensure that companies are run with a long-term view of the interests of key stakeholders are more likely to prosper than those with short-term 'shareholder first' perspectives (Sillanpää, 1998). One of the actions that might be taken to meet earnings targets is the retrenchment of trained personnel, which might be a sub-optimal decision in the long run. Another action includes the selling of an internally developed patent, which would recognise revenues and meet earnings targets. This action contradicts long-term competitively sustainable thinking.

Short-termism results in an excessive orientation towards short-term profits at the expense of long-term research and development (R&D) activities and developments and is given as one of the causes of decline of firms in the UK and USA (Cescon, 2002). These firms place a greater degree of emphasis on costs rather than innovation, a component of entrepreneurship and strategy (Cescon, 2002). An overemphasis on short-term demands reduces the tendency of the board to consider changes in the broader external environment. In order to adequately set company direction, the board must develop a sense of changing external environments (Garratt, 1996). Boards that fail to adopt a 'helicopter' view of the organisation fail to observe approaching crises, external and internal. Delayed observations are common as board members focus too closely on balance sheets, income statements and short-term results (Scherrer, 2003).

2.6.3.3 Why the Dilemma Might Not be a Dilemma

Some instances do exist in some countries where propositions of this dilemma are weakened to circumvent difficulties in having to manage such a dilemma. In Germany and Japan, for example, the corporate governance system has mechanisms to discourage the strong pressures of short-term financial performance as managers are not evaluated every three months. Managers are evaluated according to the duration of the firm's strategic plan in relation to the sales development rate and the competitive positioning of the firm (Cescon, 2002).

Spira (2001) holds the view that the focus on some short-term demands goes hand-in-hand with the focus on strategy and that meeting a particular short-term demand addresses the need to think strategically. Spira (2001) suggests that the short-term demands related to risk control emphasize the links to strategy formulation and support the enterprise strategy.

2.6.4 Core Corporate Governance Dilemma Four

The fourth dilemma is that the board is required to focus on the business' commercial needs whilst operating responsibly and ethically to all shareholders and stakeholders (Garratt, 1996). Examples of this would include focussing on the commercial needs of the business whilst committing to reduce workplace accidents, occupational health and safety incidents, addressing the impact of human immune deficiency virus/acquired immune deficiency syndrome (HIV/AIDS) in the workplace, committing to social investment (black economic empowerment and employment equity) and practising environmental responsibility (King Committee on Corporate Governance, 2002).

2.6.4.1 Drivers of the Dilemma

Hess (2001) suggests that a model of regulation is required that makes corporations responsive to the ever-changing societal expectations of proper corporate behaviour. Societies demand socially responsible corporations, which attempt to deal with this demand through the framework of corporate governance.

Apart from considerations regarding the role of the board as stated previously another reason for the existence of this dilemma is one of the requirements of a good and inclusive approach to corporate governance (King Committee on Corporate Governance, 2002). This requirement concerns holding an adequate balance between social goals and economic goals. Directors face a dilemma in this regard because as stated previously, many directors believe their role is to generate profits for majority shareholders and holding companies at all costs thus ignoring their obligations of accountability to key stakeholders like employees, customers, suppliers, minority shareholders, subsidiary companies and society. Freeman & Harrison (1999) argue that companies are obligated to provide substantial returns to shareholders but in so doing, their strategies in this regard lead to actions that various stakeholders find offensive. These obligations to key stakeholders cannot be ignored and must be a primary concern in terms of good corporate governance as stakeholders seek and demand information on a corporation’s social performance. Hess (2001:313) states “For example, a 1994 study of 1,037 American households found that 16 percent of the respondents *always* or *frequently* study information on a company's practices and social performance before making their purchasing decision."

The basis for the existence of this particular dilemma is also laid out in a suggestion by Coyle (2003) that a company should recognise its economic imperatives in competitive markets and its obligations to meet shareholder requirements in terms of financial performances and that it should simultaneously recognise the interests of other individuals, companies and societies in its decisions and actions.

Boards today are more accepting of their obligations towards stakeholders and are therefore realising that this demand can be addressed from one angle through good corporate governance in the form of social reporting. This demand should also be addressed through deed in an attempt to create a balance between the corporation's social and economic objectives. These obligations fall under the subjects of corporate social responsibility (CSR) (Smith, 2003) and socially responsible investment (SRI) (African Institute of Corporate Citizenship, 2002). The existence and pertinence of this dilemma is further corroborated by Smith (2003) as he suggests that there is a great deal of uncertainty about the nature and scope of the obligations relating to corporate social responsibility, further complicating the need to hold an adequate balance between social and economic needs. This dilemma is particularly applicable to the business environments in developing countries like South Africa as it is very characteristic of the circumstances creating the pressures for companies to deliver wider societal value. These circumstances include (Freeman & Harrison, 1999; Hess, 2001; African Institute of Corporate Citizenship, 2002; Hampden-Turner, 2003 and Smith, 2003):

- high levels of insecurity and poverty;
- the growing importance of human assets;
- requirements for equal employment opportunity;

- concerns for health and occupational safety especially due to the proliferation of HIV/AIDS in companies in developed countries like South Africa;
- the demands for social justice and economic development;
- the backlash against globalisation;
- rapid and widespread exposure through extensive media and advances in technology;
- growing environmental concerns;
- concerns for human rights issues for multi-nationals;
- the mistrust of big businesses;
- heightened societal expectations; and
- heightened ethical sensitivity.

2.6.4.2 Dynamics of the Dilemma

Research performed by Freeman & Harrison (1999) with regards to the relationship between socially responsible organisational behaviour and various types of performance contends that economic effects are social and that social effects are economic. The research illustrates that certain companies increased customer service levels and this had a negative influence on profitability in the short-term due to associated costs in improving service levels to this particular group of stakeholders. Smith (2003) posits that an increased focus on social performance dilutes director focus on profitability and the commercial needs of the company.

It would seem from these studies that corporate social responsibility and socially responsible investment are in some ways, negatively correlated to profitability, forming the basis of this dilemma for directors. Smith (2003) corroborates this view by stating that evidence to suggest that a significant proportion of consumers will pay more for CSR is scant. The market share in the UK of ‘ethical products’ over seven food and non-food segments is about 1.5% only. This does not present a good picture for a business model including CSR. Naughton (2002) posits that international standards of corporate social responsibility will impose higher costs on companies in poorer countries, as they would be determined by best practice in developed countries like the UK from which South African boards have adopted their structure. Implementation of CSR also has the potential to annoy shareholders as some suspect that directors are personal visions of a better world with shareholder returns and without regard for the effectiveness or ill-consequences of their strategies (Smith, 2003). Shareholders feel these strategies are destroying the tenets of the profit business models and the expansive role of capitalism by compromising on research and development and innovation through the dampening of prices on patent-protected products (Smith, 2003).

Corporate social responsibility embraces the ‘triple bottom line’ in the context of corporate governance whereby companies pay attention to environmental and social impacts in addition to reporting on economic performance (Keay, 2002). This form of reporting introduces further costs in the form of systems to ensure timely availability relevant to environmental costs and liabilities and systems to support financial and environmental planning and decision making (KPMG, 2001). The impact of environmental issues on company finances occurs in the form of upgrades of plants and equipment for compliance with environmental standards that could raise costs and in the form of litigation or taxes on environmental impacts that also raise costs (KPMG, 2001).

On the other hand, inappropriate disposal of waste by a company in an attempt to protect profits could lead to reduction of costs but could conversely have negative implications on the environment (Minkes *et al*, 1999 and Hess, 2001). Failure to address social responsibilities like HIV/AIDS in the workplace has the potential to incur significant costs in the form of reduced earnings through declining productivity, loss of skills and experience, staff disruption, declining morale, increased accidents due to stress and depression and deteriorating worker-employer relations (Gill & Thompson, 2003; Hansen, 2003 and du Toit & Burger, 2004). Failure to provide life-prolonging drugs in this regard can damage the company brand and image and incur losses through consumer boycotts (Gill & Thompson, 2003). Du Toit & Burger (2004) provide evidence that intervention in this regard makes good business sense.

Results for a gold mining company in South Africa indicate that addressing HIV/AIDS in the workplace will reduce the impact on the production price of gold from R70.00 per ounce to approximately R20 per ounce by 2008 (du Toit & Burger, 2004).

Company boards cannot afford to compromise on profits or raised costs as they are obligated to provide high returns to shareholders. Boards must also be careful not to compromise on corporate social responsibility efforts, as all stakeholder groups and society at large demand an adequate level of socially responsible organisational activity. A critical consideration for companies that do not contribute adequately to social responsibilities is reputational risk and safeguarding of the brand image (Smith, 2003).

As stated in Section 2.5.1, the source of this particular dilemma is the role of the board and its responsibilities to its stakeholders and the essence is essentially the need to balance the competing interests of all stakeholder groups (Hess, 2001). Failure of the board to maintain these balances is counter to a good and inclusive approach to corporate governance.

The following section considers examples the costs of addressing social responsibilities, a consequence that negatively affects profitability of the business.

2.6.4.2.1 Examples of Effect of CSR on Profitability

According to University of Cambridge (2002), Ford contributed to their social responsibilities by offering greener vehicles and greener fuels with the launch of the new Ford Fiesta in 2002. The launch was high on green credentials but low on sales. Sales were low as a result of customers not wanting to compromise on their existing products (University of Cambridge, 2002). Boards in the auto industry face the dilemma on how to approach corporate social responsibility with declines in motor sales.

Norsk Hydro's, one of the world's largest producers of oil faces this dilemma in its operations in Angola (University of Cambridge, 2002). This is a clear reflection of the situation in the oil industry as a whole. University of Cambridge (2002) has illustrated the negative effects on Norsk Hydro's profitability and competitiveness of attempting to address its social responsibilities in Angola in the areas of education, agriculture and economic growth.

The central tenets of the business model in the pharmaceutical industry are research and development and profits, which depend on the monopolistic pricing of patent-protected drugs (Smith, 2003). In developing countries like South Africa companies like GlaxoSmithKline (GSK) have addressed their social responsibilities by discounting prices on HIV/AIDS medicines. Due to international pressure this strategy was duplicated in developed countries as the incidence of HIV/AIDS was not limited to developing countries. Due to the negative effects of these strategies on profitability pharmaceutical countries have had to rethink their business models to incorporate CSR without the negative effects on returns to shareholders (Smith, 2003). Smith (2003:58) suggests that this view was the result of intervention of the boards on a moral and profitability basis as he states, "…the company's priority was public health, not simply shareholder value", and "…these actions reduce the risk of reducing shareholder value". In addressing this dilemma pharmaceutical companies had to simultaneously reduce the risk of government intervention through regulation that would dictate all actions and reduce commercial freedom.

Finally, Microsoft offered to give away software to 32 000 public schools in South Africa. This would entail the loss of $2 million of annual revenues from this particular sector (Smith, 2003).

2.6.4.3 Difficulties in Managing the Dilemma

The central tenet of this particular argument is that it is difficult to hold a balance between the economic needs and social needs of an organisation, thus balancing the needs of a diverse set of stakeholders simultaneously as trade-offs among them are required (Hampden-Turner, 2003). The task of managing this dilemma is made more complex by the lack of concrete measures for social performance. Freeman & Harrison (1999) contend that researchers have attempted to identify measures for social performance and to determine whether or not companies reap the benefits of good social performance in the form of economic performance and better shareholder returns. This has proved to be an intricate task as researchers believe that it is impossible to divide the worlds of society and economics as they both systemically influence each other in varying ways (Freeman & Harrison, 1999). The current stakeholder model is also not very sophisticated and ignores many differences between stakeholder groups. Companies therefore find it very difficult to balance stakeholder needs appropriately and to measure the effects of this on social and economic performance.

Smith (2003) posits that the implication of attempting to balance all stakeholder needs in this regard is that shareholders might feel that their interests in some instances are regarded as secondary to those of other key stakeholders. This argument does not appeal to many company directors, exacerbating the complexity of this dilemma.

Furthermore the management of this dilemma is made more complex in a society whose values are constantly evolving and are circumstantial (Hess, 2001). Hess (2001:310) states, "…such key, and sometimes conflicting, values as success, freedom, justice, equity, efficiency, contractualism, communitarianism, utilitarianism, and individualism, together with deeply ingrained notions of personal and property rights, influence our concepts of ethical and responsible behaviour". Garratt (2003) supports the view that this dilemma is demanding in its management, as corporate social responsibility is a highly controversial area where extreme positions are easy to take and where it is far more difficult to hold a balanced and pragmatic line.

2.6.4.4 Why the Dilemma Might Not be a Dilemma

A contradicting argument can be presented to that of the negative effects of a company's responsibility to its employees, business partners and society on the commercial needs of the business and on returns to shareholders. The central tenet of this argument is that these social responsibilities lead to improved profitability and returns to shareholders in the long run instead of destroying returns, profits, competitiveness and efforts concerning research and development and innovation. With reference to the definition of a dilemma presented in Section 1.2, the basis of this argument is that a balance is not the central tenet to managing this dilemma but that there exists a positive causal relationship between social responsibility and the commercial needs of the business. It suggests that directors are compelled to focus on CSR and cannot afford to ignore it if they are intent on providing shareholders with greater returns. Conversely, ignoring social responsibility could lead to a decrease in returns and profitability for shareholders and could very well negate the effects of attempting to ensure the commercial needs of the business are secure.

Freeman & Harrison (1999) present results of research by Richard Johnson and Daniel Greening that suggests that companies that perform well on the 'people' dimension of social performance (relations with women, minorities and employees) tend to produce greater financial performance.

Concerning the 'product' dimension, Hess (2001) and Smith (2003) suggest that consumers vote on corporate behaviour through their purchase decisions and consumers have indicated they are willing to punish companies that ignore social responsibilities and that they are willing to award those that are socially responsible. This reward could lead to greater sales and returns for shareholders while punishment and criticism could lead to diminished returns due to declining sales.

Concerning the 'employee' dimension, potential employees are selecting companies with stronger values and evidence of social responsibility (Smith, 2003). As an example, Smith (2003) points out that Edward Jones was the number one company to work for in the USA in 2002 and its employees praised the company's ethics and social performance. Acquiring and retaining the best talent could lead to increased productivity, enhanced innovation, increasing sales, profits and value creation and ensuring that the commercial needs of the business are indeed secure (Hampden-Turner, 2003). Dahle (2003) presents a case on Dofasco Inc., a steel maker in the USA that believes that happy shareholders begin with satisfied customers, which in turn begin with happy employees.

Regarding the 'investment' dimension, investors are contributing more money to socially responsible investing. $2.32 trillion or nearly one out of every eight dollars under investment was found to be involved in socially responsible investment in the USA in 2001 (Smith, 2003). CSR leads to improved stock and share performance (African Institute of Corporate Citizenship, 2002).

One question still remains regarding social responsibility and relates to the complexity in managing this fourth dilemma. This question is 'How much?' and concerns the degree to which companies should contribute to social responsibilities as an excess of contribution is seen to lead to a dilution of efforts to secure the commercial needs of the business on behalf of shareholders (Smith, 2003).

2.7 Conclusion

This chapter has highlighted the importance of coping with paradox and dilemmas as a capability for success in practicing good governance in an increasingly complex, turbulent, discontinuous, rapidly changing yet regulated global marketplace. The need for this competence is further corroborated by a world of increasing uncertainty in which directors are expected to perform their designated roles and responsibilities. This chapter has also highlighted the complexities involved in dealing with dilemmas and that paradox cannot be solved but only be dealt with over time through managing a dynamic balance.

The literature describes corporate governance in general with reference to the relevance of corporate governance, the role of the board, corporate governance structures and corporate governance dilemmas. There is little literature explicitly describing corporate governance dilemmas facing boards. The first three sections in this chapter develop the context and lay down the basis necessary for understanding how corporate governance dilemmas manifest themselves in business. The last section in this chapter attempts to explicitly describe the corporate governance dilemmas in detail. This understanding could significantly aid boards in managing paradox and its inherent balances. This chapter also fills the gap that exists in the literature regarding corporate governance dilemmas facing boards.

CHAPTER 3: RESEARCH QUESTIONS

The questions in this section, flow from the literature review and constitute the statements against which the research was conducted. The research questions are directly aligned to the sub-problems in Section 1.3.2 and are presented in this manner in this section.

3.1 Research Question 1

The literature review attempts to address the first sub-problem on the directorial dilemmas of corporate governance and leads to the first research question:

'What are the core corporate governance dilemmas facing boards?'

3.2 Research Question 2

The second research question is derived from the second sub-problem statement and is posed as follows:

'What is the order of importance of the core corporate governance dilemmas facing boards?'

3.3 Research Question 3

The third research question is derived from the third sub-problem statement and is posed as follows:

'What are the proposed best practice suggestions for coping with the core corporate governance dilemmas facing boards?'

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

This chapter provides an in-depth description of the research methodology that was employed to elicit the answers to the research questions under pinning the study. The chapter sets out with a description of the chosen paradigm of research and the method chosen and its implications for this study. The chapter then outlines the population and sample, research instruments and the processes that were used to collect, analyse and interpret the data. The chapter finally concludes with validity and reliability considerations of the chosen method of research.

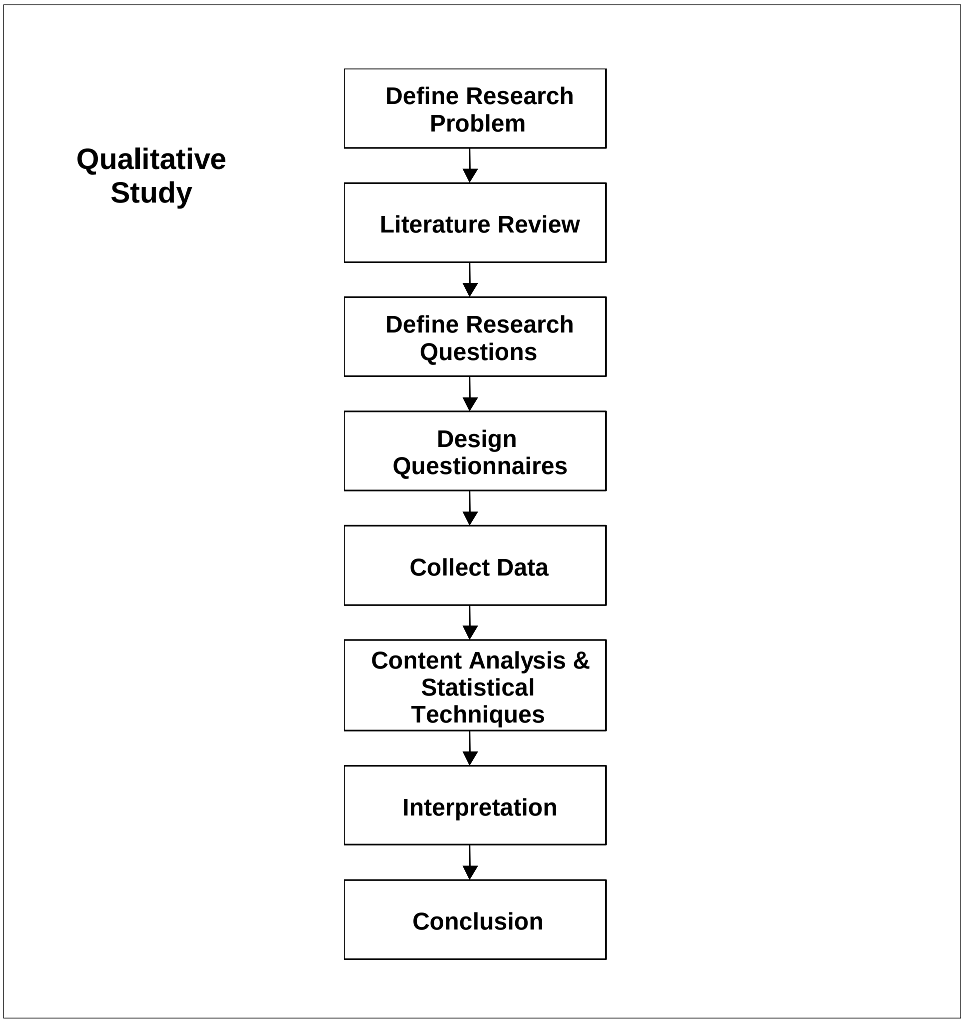
The study is intended to identify and rate the corporate governance dilemmas facing boards and to determine best practices for coping with these dilemmas. The research involved both qualitative and quantitative analyses throughout the research process (Loo, 2002). The aim of this study, as supported by Miles & Huberman (1994) in their description of recurring features of qualitative research, is to gain a systemic overview of the context under study. In this case, that would involve understanding the logic, the origins and the rules of corporate governance dilemmas facing boards.

4.2 The Qualitative Study

The primary method of research employed in this study was a qualitative analysis of data collected through the research questionnaires. The purpose of qualitative research in this case was "…to answer questions about the complex nature of phenomena, often with the purpose of describing and understanding the phenomena from the participants' point of view" (Leedy & Ormrod, 2001:101). Leedy (1989) asserts that qualitative study is a means of developing an understanding of the subject and explaining the phenomena in a very thorough manner using content analysis and synthesis.

The methodological approach to the study is illustrated in Figure 4.

Figure 4: Research Approach



4.3 Method

The method of research proposed is the Delphi technique and will be based on the literature review. This technique was selected for this study based on several criteria that are outlined in this section. Story, Hurdley, Smith & Saker (2001) affirm that the purpose of the Delphi technique is to obtain the most reliable consensus of opinion through intensive questionnaires which are interspersed with controlled feedback on opinion. The technique involves an aggregation of group responses. Story *et al* (2001:487) describe the Delphi technique as a method that "…facilitates the formation of group judgement without introducing problems associated with group interaction".

4.3.1 The Delphi Technique – An Overview

The Delphi technique concerns the use of an experienced group or panel of experts. The primary theory behind this is that 'n+1' heads are better than one. Experts contribute knowledge, authority and insight (Story *et al*, 2001).

The Delphi technique was developed by the Rand Corporation in the 1950's to address problematic issues that arose during group decision-making (Erffmeyer, Erffmeyer & Lane, 1986 and Story *et al*, 2001). Application of the Delphi technique can be found in a number of academic disciplines such as healthcare, education, technology and marketing (Story *et al*, 2001).

4.3.2 Characteristics and Flow of the Delphi Technique

The key characteristics of the Delphi technique include the following (Rowe & Wright, 1999; Story *et al*, 2001 and Loo, 2002):

- the sample constitutes a panel of carefully selected experts with broadly varying opinions on the topic(s) or issue(s) at hand;
- participants are anonymous;
- over the course of the Delphi, the researcher constructs a series of structured questionnaires and feedback reports for the expert panel;
- the process is iterative and usually comprises three to four rounds of questionnaires and feedback reports;
- independent thought;
- controlled feedback; and
- the aggregation of group responses.

According to Critcher & Gladstone (1998) the Delphi method is divided into six stages:

1. The formulation of issues/topics;
2. Exposing the options;
3. The initial positions regarding the issues are determined, especially areas of agreement and disagreement;
4. The reasons for these disagreements are explored;
5. These reasons are evaluated; and
6. The options are re-evaluated based on the points above.

The Delphi technique comprises a number of rounds of data collection (Story *et al*, 2001 and Loo, 2002). The first round is relatively unstructured so that experts can identify and elaborate on applicable issues from their points of view. The researcher then consolidates the issues into a structured questionnaire (Story *et al*, 2001).

The questionnaire is then used to extract the judgements of the panel of experts quantitatively. These are then analysed and summarised statistically by the researcher so that he/she can present them back to the panel for further consideration (Story *et al*, 2001 and Loo, 2002). The panel may alter estimates based on the feedback (Erffmeyer *et al*, 1986).

The number of rounds may vary between two and 10 and should not involve more than one or two questionnaires each as this may lead to boredom. The researcher considers stability in responses between the iterations (Story *et al*, 2001).

Anonymity serves to exclude negative aspects of group interaction such as group conflict and individual dominance (Story *et al*, 2001 and Loo, 2002). Controlled feedback concerns the feedback of results, which are presented back to the panel at the beginning of the next round.

The iteration, feedback and aggregation of group responses serve to produce the highest possible number of quality responses and opinions as possible on the relevant issue(s) from the expert panel so as to enhance decision-making (Story *et al*, 2001). This is achieved by the feedback of responses to the panel through iterations and respondents are able to adjust their estimates on the basis of comments from other members in the panel group (Story *et al*, 2001). The intended result is a reliable consensus or convergence of opinion until a point of diminishing returns is reached (Erffmeyer *et al*, 1986).

4.3.3 Advantages of the Delphi Method

Story *et al* (2001) suggest that the advantages should be subdivided into three groups. These are presented in the following table.

Table 4: Advantages of the Delphi Method

Group One – Methodological Advantages
Can be used when dilemmas are ethically or socially sensitive.
Captures a range of interrelated variables and multi-dimensional features characteristic of complex problems.
Avoids group conflict and individual dominance.
Panellists are anonymous and can therefore revise views without admission.
Promotes independent thought.
Group Two – Practical Application Advantages
Inexpensive to organise.
Quick and efficient.
Consolidates global opinion even when experts are globally dispersed.
Group Three – Managerial Learning Advantages
Facilitates team or group decision-making.
Recognises individual contributions, which encourages a personal stake for the panellist in the success of the project.

4.3.4 Disadvantages of the Delphi Method

According to Story *et al* (2001), the disadvantages of using the Delphi technique are subdivided into two groups. These are presented in the following table.

Table 5: Disadvantages of the Delphi Method

Group One – Process Issues
The reliability and validity of the process is difficult to estimate.
The averaging process could weaken the full potential of the judgement of the group.
Anonymity can lead to compromise rather than consensus.
Anonymity circumvents sufficient interaction.
Group Two – Panellist Issues
It is difficult to assess the expertise of panellists and to therefore select them.
If generalisations are made, convenience sampling is not suitable.

4.3.5 Process of the Delphi Method

As stated previously the Delphi process comprises a number of rounds. Erffmeyer *et al* (1986) suggest that it is intuitive that the optimal number of iterations in the Delphi process would be the minimum number of rounds required for an acceptable level of accuracy. Accuracy is however put aside in many Delphi applications. The technique is judged to be successful when participants' opinions reach stability. The change in responses in rounds should be negligent and results repetitive (Erffmeyer *et al*, 1986 and Loo, 2002).

Empirical research by Erffmeyer *et al* (1986) provides support for the fact that four rounds are often sufficient and that unless two rounds of Delphi have resulted in the convergence of opinions, another two rounds might significantly improve this. Erffmeyer *et al* (1986) emphasize that the results of their research indicate that two rounds might be unwise and that a third round would most likely improve the quality of the solution to the problem at hand. It is for these reasons and for the fact that each round required substantial effort to complete that the researcher proposed only three rounds for the current study.

The Delphi process as applied in this study followed the process in Table 6 (Story *et al*, 2001; Loo, 2002 and Ngwenya, 2002).

Table 6: The Route of the Delphi Process

Round One	An open-ended question was used to encourage participants to elaborate on the pertinent problems and opportunities facing boards. This was followed by two structured questions to encourage the identification of and elaboration on dilemmas from their own point of view and in terms of their own expert opinion. A short explanation of a dilemma was included. The questionnaire was returned to the researcher to summarize against the literature. Dilemmas identified by the respondents and dilemmas not mentioned by the experts but identified in the literature were summarised and included in the list for the second round. The data was qualitative.
Round Two	The panellists received the summarized list in the form of a structured questionnaire and were asked to reconsider the appropriateness of all core corporate governance dilemmas summarised in round one. The second questionnaire essentially contained an aggregate consensus of opinions from the first round. The experts were requested to provide reasons for why they might disagree with the dilemmas provided and were given the opportunity to alter their original opinions. If experts provided additional dilemmas, they were asked to provide an explanation of why they thought this was a dilemma. The researcher then summarized the responses for the structured questionnaire in round three.
Round Three	The panel of experts received the summarized list in the form of a structured questionnaire to rate the dilemmas generated in round two. The third questionnaire essentially contained an aggregate consensus of opinions from the second round. The researcher then used a scale of importance for the purpose of rating the dilemmas. This was performed in a quantitative manner in this round. The experts were also requested to consider possible best practice suggestions to cope with the core corporate governance dilemmas summarized in round two. The rated corporate governance dilemmas were then analysed and statistically summarized. Convergence and consensus levels were expected to be higher than in the initial rounds. The results of the study were elicited from a final list created after this round.

4.4 Population and Sample

Leedy (1989:198) outlines the significance of the population sampling methods and parameters as he states “The results of a survey are no more trustworthy than the quality of the population or the representativeness of the sample. Population parameters and sampling procedures are of paramount importance and become critical factors in the success of the study.”

The population from which this sample was selected consisted of all executive and non-executive directors, chief executive officers (CEOs) and non-executive chairmen, consultants and academics who possess the knowledge and experience necessary to participate in a Delphi concerning the practices of corporate governance. The sample was drawn from the population mentioned above and was located within South Africa. Members of the sample are subject matter experts on the subject of corporate governance so that they had the necessary experience to answer the research questions and could be accessed by direct mail (electronic or postal) (Rowe & Wright, 1999). These stakeholder groupings were sufficient for the purpose of triangulation.

4.4.1 Sampling Methodology

The sample selection was based on purposeful sampling or on a purposive sampling methodology where the researcher purposefully selects a panel of experts on the subject under study (Clayton, 1997). Creswell (1994) states that this method is used to purposefully select participants that possess the authority and experience to answer the relevant research questions.

Clayton (1997) states that because expertise is the goal for panel selection, this is a feature that sets Delphi apart from other forms of survey research. “The process of selecting experts is critical to the Delphi and serves to authorise the Delphi’s superiority and validity over other less painstaking and rigorous survey procedures.” (Clayton, 1997:377). According to Clayton (1997), an expert is an individual who possesses the knowledge and expertise necessary to participate in a Delphi when the Delphi concerns the person’s particular area of expertise. No attempt was made at random selection.

Another reason this sampling method was used was so that a cross-section of opinions could be acquired from this diverse population sample. A heterogeneous population was selected to ensure the full spectrum of views represented (Loo, 2002). A heterogeneous population is one where people possess expertise on a particular topic but come from different social/professional backgrounds (Clayton, 1997).

The researcher acquired the necessary information to target appropriate members of the sample through referrals, business publications, and business websites and by approaching well-known business enterprises and personalities in South Africa.

4.4.2 Sample Size

Clayton (1997) suggests that depending on the purpose and complexity of the study, a panel may be large, small, national or international. Martino (cited in Loo, 2002) suggests the rule of thumb is that 15 to 30 carefully selected experts could be used for a heterogeneous population. Speed (cited in Story *et al*, 2001) suggests that a sample of 10 to 20 experts is generally ample and that larger numbers might lead to logistical problems with little improvement in the findings.

The researcher compensated for expected attrition throughout the Delphi process by selecting 22 experts to be used on the starting panel, though additional and willing members were welcomed. With expected attrition, the aim of the researcher was to be left with 10 to 20 experts for completion of the Delphi study. The planned sample is presented in the following table.

Table 7: The Planned Sample

Title of Sample Members	**Number of Members**
Non-executive directors	2
Executive directors	4
Chief executive officers	5
Non-executive chairmen	2
Corporate governance experts/academics	5
Corporate governance consultants	4
TOTAL	22

The companies and institutions from which the sample was selected were chosen on the basis that they are well known in South Africa.

A panel of 22 participants was achieved for the first round of the Delphi study.

4.5 Research Instruments

A letter of introduction (Appendix A) was initially sent to the potential panel members, introducing the subject of study and its objectives, proposing a schedule and requesting their participation. On acceptance, each participant was sent a letter (Appendix B) thanking him or her and informing him or her of the date of distribution of the first questionnaire. The researcher collected data by means of three self-administered questionnaires for each of the three rounds of the Delphi study. The first questionnaire (Appendix F) was designed to collect data for the first round only. The questionnaires for the second and third iterations can be referenced in Appendix G and Appendix H.

Data collection was made selective by means of questionnaires with specific structured and unstructured questions. This aided in bounding the quantity of information so that unnecessary complexities in analysis were mitigated (Miles & Huberman, 1994).

4.5.1 Questionnaire One

The first questionnaire provided details on the purpose of the first iteration, a definition of a dilemma, examples of dilemmas, the contribution required, the timing required and addresses for the return of complete questionnaires. The first questionnaire also stressed that participants should contact the researcher in the event that explanation should be required. The main part of the questionnaire was the structured question, “Which of these problems and opportunities reflect the core/central/main corporate governance dilemmas facing boards?”. The researcher subtly led the participants into this question by asking the open-ended question, “Please list the most pertinent problems and opportunities currently facing boards of directors.” The main question of the questionnaire was followed by a second structured question, “Please provide a brief explanation for why you would consider each of the identified issues to be dilemmas.” The aim of the questionnaire was to elicit the core corporate governance dilemmas facing boards. These dilemmas were identified and included in the second questionnaire for the second iteration of the Delphi study. Dilemmas identified and explored in the literature were also included in the second round.

The questionnaire could be completed and sent back to the researcher by email or printed out, completed and sent to the researcher by fax.

4.5.2 Questionnaire Two

The second questionnaire provided details on the purpose of the second iteration, a definition of a dilemma, the contribution required, the timing required and addresses for the return of complete questionnaires. The second questionnaire also stressed that participants should contact the researcher in the event that any explanation should be required. The purpose of this questionnaire was to corroborate the core corporate governance dilemmas facing boards that were identified by the panel in the first iteration and to expand on this list if required. First, a list of the identified dilemmas was accompanied by the question, “Please indicate (with a tick (√)) and explain which of the 13 dilemmas you believe are **NOT** core corporate governance dilemmas facing boards. Alternatively simply place a tick (√) in the “**Is**” column. No explanation is then required. This list reflects a consensus summary of opinions of the panel in the first iteration.” Thirteen dilemmas generated from the first round were listed.

Second, the panel members were given the opportunity to alter their original opinions in the first iteration by providing additional dilemmas with accompanying explanations if deemed necessary. The questionnaire could be completed and sent back to the researcher by email or printed out, completed and sent to the researcher by fax.

4.5.3 Questionnaire Three

The third questionnaire provided details on the purpose of the third iteration, a definition of a dilemma, the contribution required, the timing required and addresses for the return of complete questionnaires. The third questionnaire also stressed that participants should contact the researcher in the event that any explanation should be required. Panel members were also reminded that the dilemmas listed in the questionnaire were confirmed and summarized in the second iteration. The purpose of this questionnaire was to rate the core corporate governance dilemmas facing boards on an importance scale of one to 10 and to elicit possible best practice suggestions to cope with these dilemmas.

First, each dilemma was accompanied by the question, “Please rate the dilemma on an importance scale of 1 to 10 where 1 is *‘of little concern’* and 10 is ‘*most prominent’*. Please do not use fractions or decimals. Only use whole numbers.” Second, the questionnaire elicited possible suggestions for coping with these dilemmas with the question, “What do you believe would be best practice for coping with the challenges of this dilemma?”

4.6 Data Collection

The nominated respondents’ personal assistants were contacted by telephone initially to invite the potential respondents to participate in a Delphi study of three rounds. The researcher explained the purpose of the study; the subjects addressed and provided a brief overview of the research methodology. The researcher also outlined an estimate of the duration of the study and therefore the anticipated time that potential participants needed to commit to involvement in the study. Electronic mail addresses and fax numbers were acquired from the personal assistants in preparation for the study.

Subsequent to the telephonic discussion an introduction letter (Appendix A) was sent to each respondent, requesting their participation and informing them of the schedule and duration of the Delphi rounds. Respondents were offered a copy of the final research report as an incentive for taking part in the research process. Respondents were guaranteed that their responses would be kept confidential and that they would remain anonymous in terms of specific responses. In the event that respondents accepted through electronic mail or telephone, an electronic response (Appendix B) was sent, thanking the respondent for their willingness to participate and informing the respondent of the date of distribution of the first questionnaire.

The three Delphi rounds were characterised by the following intentions:

Round one – The collection and formulation of core corporate governance dilemmas.

Round two – The corroboration of dilemmas summarized in round one and the provision of justification for dilemmas rejected and new dilemmas added.

Round three – The rating of the summarized corporate governance dilemmas from round two and the formulation of possible best practice suggestions to cope with the dilemmas.

4.6.1 Round One

In the first round the expert panel was asked to answer one unstructured research question and two structured research questions accompanied by an explanation and examples of a dilemma via the first questionnaire (Appendix F). The participants were requested in a separate letter (Appendix C) to return responses via convenient media such as e-mail or fax. Twenty complete responses were received in the first round and acknowledgements (Appendix C) were sent to the individuals who responded. According to the sample criteria of the study, the size and composition of the sample of respondents in the first round was found to be acceptable. A detailed profile of the respondents and the response rates for all three rounds is provided in Table 8.

Table 8: Detailed Profile of Respondents

Respondent #	Field	Role	Round one	Round two	Round three
1	Legal	Expert	Y	Y	N
2	Directorial	Expert	Y	Y	Y
3	Directorial	Expert	Y	Y	Y
4	Directorial	Expert	Y	Y	N
5	Academia	Academic	Y	N	N
6	Management consulting	Senior manager	Y	Y	Y
7	Management consulting	Partner	Y	Y	Y
8	Management consulting	Partner	Y	N	Y
9	Management consulting	Partner	Y	Y	Y
10	Management consulting	Chief executive officer	Y	Y	Y
11	Financial services	Non-executive chairman	Y	Y	Y
12	Resources	Non-executive chairman	Y	Y	Y
13	Retail	Chief executive officer	N	Y	Y
14	Biotechnology	Chief executive officer	Y	N	N
15	Construction	Chief executive officer	Y	Y	Y
16	Telecommunications	Non-executive director	Y	Y	Y
17	Financial services	Non-executive director	Y	Y	Y
18	Paper & pulp	Chief executive officer	Y	Y	Y
19	Manufacturing (beverages)	Executive director	N	N	N
20	Retail	Executive director	Y	Y	Y
21	Financial services	Executive director	Y	Y	Y
22	Financial services	Executive director	Y	Y	Y

Legend	Y = Participated	N = Did not participate

The researcher summarized the responses against the literature and populated the structured questionnaires to be used in the second Delphi round.

4.6.2 Round Two

The second questionnaire (Appendix G) and an introduction letter (Appendix D) were forwarded to all respondents from the first round via electronic mail. In the second round of the Delphi study the experts were asked to consider the opinions of the other experts and the literature and to provide reasons for divergence with the list of dilemmas by means of a structured question. Panellists were also given the opportunity to change their prior opinions if they desired or to provide additional dilemmas with accompanying explanations for the additions. This information was elicited through a second structured question.

Eighteen participants responded positively to the second round of this study and all complete questionnaires were usable. Acknowledgements (Appendix D) were sent to the individuals who responded. The researcher summarized the responses and populated the structured questionnaires to be used in the third and final Delphi round.

4.6.3 Round Three

The third questionnaire (Appendix H) and an introduction letter (Appendix E) were forwarded to all respondents from the second round via electronic mail. In the third round, the experts were provided with the summary of the second round and asked to rate the dilemmas on an importance scale of 1 to 10 where 1 is *'of little concern'* and 10 is '*most prominent'*. The experts were also asked to provide possible best practice suggestions that would assist directors to potentially cope with the core corporate governance dilemmas identified and corroborated in round two.

Seventeen participants responded positively in the third round of this study and all complete questionnaires were usable. Acknowledgements (Appendix E) were sent to the individuals who responded, thanking them for their full commitment to the research and offering them the opportunity to request the results for the study or to request a presentation of the results for the study at a suitable forum. The researcher summarized the responses and the data collected in the three rounds of the Delphi study were analysed.

The data collected in the study is qualitative data. More importantly, one of the strengths of this data is that, "…they focus on *naturally occurring, ordinary events in natural settings,* so that we have a strong handle on what 'real life' is like" (Miles & Huberman, 1994:10).

4.7 Data Analysis

It must be noted at the outset that the data collected in the three Delphi rounds were not immediately accessible for analysis and that some processing was required (Miles & Huberman, 1994). Raw hand-written data had to be processed prior to analysis by converting the data into typed write-ups for legibility by the researcher. The data collected was qualitative in nature, the strength of which rests on the competence with which they were analysed (Miles & Huberman, 1994). This section provides an explanation of the techniques used to process and analyse the data acquired in the three rounds of the study.

4.7.1 Delphi Round One: Identification of Core Dilemmas

The first round of the Delphi study produced the core corporate governance dilemmas facing boards and the accompanying justifications for their existence. In order to sort the data content into themes and categories, a qualitative analysis technique called 'coding' was used. Codes are labels that assign units of meaning to descriptive or inferential data collected in the study (Miles & Huberman, 1994). Codes reduce the text into categories of words, phrases, sentences, paragraphs or themes (Miles & Huberman, 1994). In this round of the study, descriptive codes were used to retrieve and organize the corporate governance dilemmas produced by the second question in the first questionnaire and to identify reasons for their existence. Inferential/pattern codes were used to illustrate emergent themes discerned in the responses to the third question in Questionnaire one (Appendix F). These coding techniques were used for this study as the data could be reduced to a list of corporate governance dilemmas facing boards and possible themes explaining the basis of these dilemmas.

The information was analysed against expected results from the literature and distilled into logical dilemmas. Divergent and convergent dilemmas were identified and used to populate a structured questionnaire for round two. Mismatches with the literature could be indicative of the South African context and the issues currently facing South African directors.

4.7.2 Delphi Round Two: Corroboration and Explanation

The summaries from round one were sent back to the panel for corroboration and explanation of any divergences. The summaries comprised the consensus opinions of panel members from round one.

Round two also produced additional potential dilemmas accompanied by explanations relating their origin and existence. Descriptive codes were used to retrieve and organize the additional potential corporate governance dilemmas produced by the second round and to identify reasons for their existence. Inferential/pattern codes were used to illustrate emergent themes discerned in the responses to why these dilemmas exist. Pattern codes were also used to illustrate themes relating to divergent opinions about the list of dilemmas presented in round two in the second questionnaire (Appendix G). These themes were used together with the definition of a dilemma in the literature as a basis for judgement about whether dilemmas should be included in the summary for the third round or rejected altogether.

The results were once again considered for reasonability against the literature and expert convergence around the core corporate governance dilemmas. The consideration for reasonability ensured that dilemmas identified met the criteria for a dilemma described by the definition in the literature.

4.7.3 Delphi Round Three: Rating and Suggestions Formulation

As part of this round, the respondents indicated their ratings of the identified core corporate governance dilemmas. Ratings were completed on an importance scale of 1 to 10 where 1 is *'of little concern'* and 10 is '*most prominent'*. Respondents were also asked to provide best practice suggestions to cope with the identified dilemmas. Descriptive and inferential coding was used to identify individual actions to cope with the dilemmas whilst pattern/theme coding was used to illustrate themes around coping with all the dilemmas mentioned.

The data emerging from the rating task underwent descriptive statistical analysis. The magnitudes of the median scores of each dilemma were indicative of the relative importance of each dilemma identified by the panel. Median scores were calculated instead of mean scores, as the mean scores would have been affected by skewed distributions. The median scores presented a more accurate summary of the ratings. Histograms of the ratings for each dilemma were indicative of the distribution of the opinions of panel members.

4.8 Validity and Reliability

Leedy (1989:40) suggests "Validity is concerned with the soundness, the effectiveness of the measuring instrument…Validity would raise such questions as: What does the test measure? Does it, in fact, measure what it is supposed to measure? How well, how comprehensively, how accurately does it measure it?" The primary question concerning validity is whether one is measuring what one thinks one is measuring (Leedy, 1989). The internal and external validity of the research determines the overall validity of the research.

According to Leedy (1989:42) "Reliability deals with accuracy. It asks questions as, How accurate is the instrument that is used in making the measurement?" Accuracy of the measuring instrument would ensure that another researcher could draw the same conclusions from the same project. Woudenberg, Bravo & Potvin (cited in Story *et al*, 2001) suggest that reliability is the consistency or reproducibility of results. This means that random error does not influence measurements in any way.

Elements of the methodology that affected the validity and reliability of the study include the Delphi survey approach, the research instruments (questionnaires), the content analysis and the statistical analysis.

4.8.1 Internal Validity

Leedy (1989:41) suggests, "Internal validity is the freedom from bias in forming conclusions in view of the data. It seeks to ascertain that the changes in the dependent variable are the result of the influence of the independent variable rather than the manner in which the research was designed." The main purpose of the Delphi study was to provide evidence of whether the corporate governance dilemmas identified through the literature review, adequately cover those experienced in practise. The Delphi technique ensured internal validity by directing respondents to identify and rate the core corporate governance dilemmas facing boards themselves.

Asking respondents to provide feedback in each round concerning the dilemmas, their ratings and possible suggestions for dealing with them, ensured that conclusions drawn from the analyses and ratings were accurate and realistic and that any bias was removed. Rowe & Wright (1999) state that feedback where information is passed between panellists may result in debiasing.

4.8.2 External Validity

Leedy (1989) suggests that external validity is concerned with whether the conclusions drawn from the selected sample can be generalized to other cases. The sample used in the Delphi study was small and purposive in nature and was not intended to be representative of the population. It will therefore not be possible to generalize the views and opinions of this sample across the population concerned. The researcher sought diversity and expert opinion rather than coverage during the Delphi study in order to challenge the corporate governance dilemmas and to address the research questions. The aim of this study was not to generalise but to draw conclusions relevant to the South African context. The validity criteria in this study will be cogency and plausibility.

4.8.3 Reliability

It is unlikely that a similar study conducted in a different context will yield the same findings and conclusions. Sackman & Woudenberg (cited in Loo, 2002) challenge the Delphi method by claiming that reliability is questionable as different responses can emerge from the same question from different panels. Sackman & Woudenberg (cited in Loo, 2002) also claim that consensus reached in later rounds is the result of pressure to conform instead of a genuine convergence of opinions and that assessment of reliability is made difficult by the use of open-ended questions.

In order to improve reliability, questionnaires used for communication with respondents included explicit explanations and definitions such as the one for ‘dilemmas’. The researcher also sent out questionnaires with different sequences of the dilemmas to be ranked. Furthermore, Dagenais (1978) contests that reliability in the Delphi method is acceptably high when conducted in real life situations.

CHAPTER 5: PRESENTATION AND INTERPRETATION OF RESULTS

5.1 Introduction

The results acquired in this study are presented and the findings interpreted in this chapter. The first three sections of this chapter encompass the presentation and interpretation of data received in the first and second rounds of the Delphi study, whilst the fourth and fifth sections present the results acquired in the third round of the Delphi study and interpret the findings. The chapter is structured according to the following sequence:

1. the identification, corroboration and consolidation of core corporate governance dilemmas;
2. comparison with the literature;
3. interpretation of the results acquired;
4. rating of the core corporate governance dilemmas on a scale of importance;
5. best practice suggestions for coping with the core corporate governance dilemmas; and
6. validity and reliability of results.

5.2 Identification, Corroboration and Consolidation of the Dilemmas – Round One and Round Two

5.2.1 Identification of Dilemmas – Round One

Content analysis of the documented responses of the first round of the Delphi study exposed 13 core corporate governance dilemmas facing boards. The results indicate that four of the 13 dilemmas correspond to the four dilemmas presented in the literature review. The 13 dilemmas exposed in the study are presented in Table 9 together with frequency of occurrence and the percentage of the total incidence of all dilemmas.

Table 9: List of Core Corporate Governance Dilemmas Identified - Round One

#	Dilemma	Frequency	%
1	The board is tasked with holding a balance between *performance* (enterprise and financial success) and *conformance* (prudent control). As an example, this includes circumventing potential misrepresentation of results due to new rules-based standards whilst complying.	15	23
2	The board is tasked with holding a balance between *attractive remuneration* for directors to acquire and retain talent and *prudent cost control*.	3	5
3	The board is tasked with holding a balance between *addressing social charter* and *BEE priorities* and being focused on the *commercial needs* of the business.	7	11
4	The board must be mindful of *short-term local demands* (e.g. risk management, control, and overseeing performance) whilst being able to balance these against broader *long-term, national* and *international trends* and *competition* (strategic thinking).	7	11
5	The board must possess *sufficient knowledge* of the *day-to-day workings* of the business to be responsible for its actions whilst being able to find time to develop a *longer-term objective/independent* 'helicopter' view of the business and developments outside (*policy formulation*).	5	8
6	The board is required to focus on the business' *commercial needs* whilst operating *responsibly and ethically* to *all shareholders* and *stakeholders*.	10	15
7	The board must hold a balance between *high risk* and *high reward* and *more certain, consistent performance* and *earnings growth*.	6	9
8	The board is tasked with holding a balance between seizing major growth opportunities in *emerging markets* and protecting *profitable existing business*.	2	3
9	The board is tasked with holding a balance between addressing the skills shortage and *actively training future board members* for the long-term (expensive) and *hiring skilled* people who have received their training elsewhere.	3	5
10	The board is tasked with holding a balance between addressing board succession for *diversity, complimentary skills* and *independence* and keeping the *current set* of very competent and successful directors.	4	6
11	The board must hold a balance between *incurring shareholder activism* as a result of lower profit levels and *incurring increased wage demands, calls for price reductions and complacency* as a result of exceptionally high profit levels.	1	2
12	Boards of multi-nationals must hold a balance between setting *executive remuneration* at *international levels* to retain talent and keeping executive remuneration at *national levels* to satisfy the media and investors.	1	2
13	The board must hold a balance between providing careers for previously disadvantaged employees (*employment equity*) and *established competence*.	2	3

The results presented in Table 9 indicate that the emphasis among the 20 participants lay with dilemma one as a core corporate governance dilemma facing boards. This emphasis represented 23% of the total votes cast for all dilemmas identified. The lowest incidence was attributed to dilemmas 11 and 12. All dilemmas were considered valid based on the fact that there was a certain level of incidence and that these dilemmas fit the criteria for a dilemma outlined in the literature review. These dilemmas were therefore included in the second round of the Delphi study.

The findings of the first round of the Delphi study served to confirm that all four of the dilemmas developed through the literature review together with the addition of another nine dilemmas could be considered to be core corporate governance dilemmas facing boards.

5.2.2 Corroboration of Dilemmas – Round Two

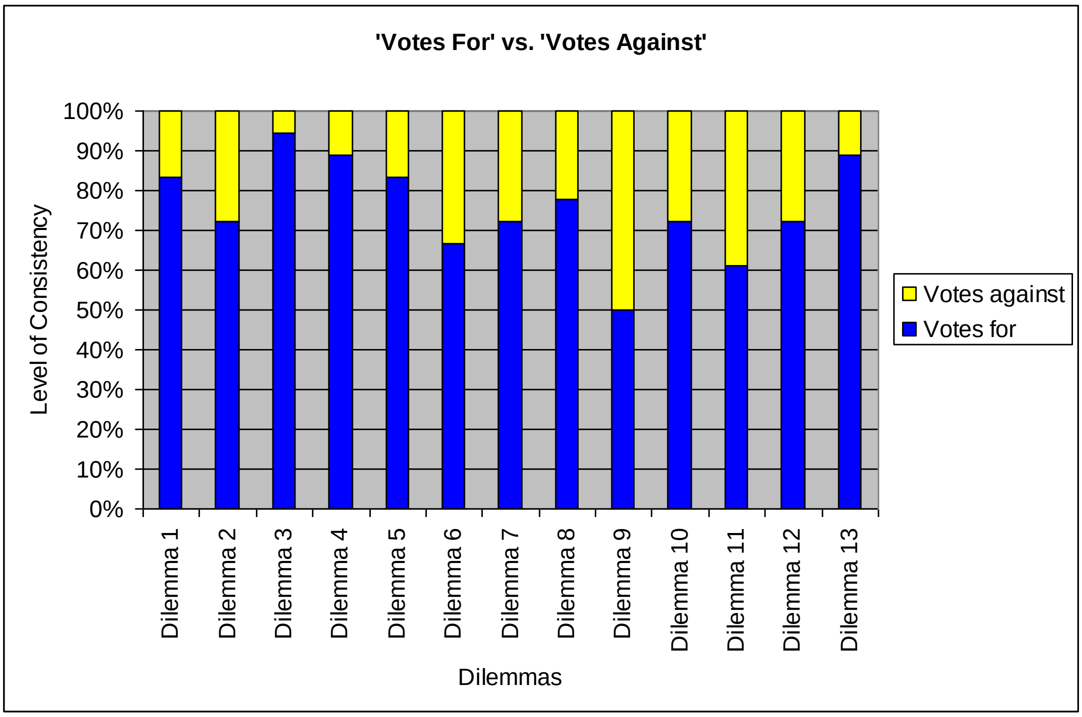
Analysis of the documented responses of the second round of the Delphi study corroborated 12 of the 13 core corporate governance dilemmas identified in round one of the study. No additional dilemmas were captured in the second round of the study. Only one respondent answered this particular question and the response did not meet the criteria of a dilemma defined in the literature review. The results of the second round of the study are illustrated in Table 10.

Table 10: List of Core Corporate Governance Dilemmas Identified - Round Two

#	Dilemma	Votes For	Votes Against
1	The board is tasked with holding a balance between *performance* (enterprise and financial success) and *conformance* (prudent control). As an example, this includes circumventing potential misrepresentation of results due to new rules-based standards whilst complying.	15	3
2	The board is tasked with holding a balance between *attractive remuneration* for directors to acquire and retain talent and *prudent cost control*.	13	5
3	The board is tasked with holding a balance between *addressing social charter* and *BEE priorities* and being focused on the *commercial needs* of the business.	17	1
4	The board must be mindful of *short-term local demands* (e.g. risk management, control, and overseeing performance) whilst being able to balance these against broader *long-term, national* and *international trends* and *competition* (strategic thinking).	16	2
5	The board must possess *sufficient knowledge* of the *day-to-day workings* of the business to be responsible for its actions whilst being able to find time to develop a *longer-term objective/independent* 'helicopter' view of the business and developments outside (*policy formulation*).	15	3
6	The board is required to focus on the business' *commercial needs* whilst operating *responsibly and ethically* to *all shareholders* and *stakeholders*.	12	6
7	The board must hold a balance between *high risk* and *high reward* and *more certain, consistent performance* and *earnings growth*.	13	5
8	The board is tasked with holding a balance between seizing major growth opportunities in *emerging markets* and protecting *profitable existing business*.	14	4
9	The board is tasked with holding a balance between addressing the skills shortage and *actively training future board members* for the long-term (expensive) and *hiring skilled* people who have received their training elsewhere.	9	9
10	The board is tasked with holding a balance between addressing board succession for *diversity, complimentary skills* and *independence* and keeping the *current set* of very competent and successful directors.	13	5
11	The board must hold a balance between *incurring shareholder activism* as a result of lower profit levels and *incurring increased wage demands, calls for price reductions and complacency* as a result of exceptionally high profit levels.	11	7
12	Boards of multi-nationals must hold a balance between setting *executive remuneration* at *international levels* to retain talent and keeping executive remuneration at *national levels* to satisfy the media and investors.	13	5
13	The board must hold a balance between providing careers for previously disadvantaged employees (*employment equity*) and *established competence*.	16	2

The importance of a dilemma to the panel was established by contending that the dilemma would only be included in the third round of the Delphi study if the dilemma appeared with a consistency of more than fifty percent in the second round. Table 10 illustrates that this is not the case for dilemma nine which has nine ‘votes for’ and nine ‘votes against’ and therefore appears with a consistency of exactly 50%. This is clearly presented in Figure 5, which represents a stacked comparison of ‘votes against’ and ‘votes for’ for each dilemma identified.

Figure 5: Consistency of Votes for Round Two



Dilemma nine is:

'The board is tasked with holding a balance between addressing the skills shortage and *actively training* future board members for the long-term (expensive) and *hiring skilled* people who have received their training elsewhere.'

Examples of comments supporting the exclusion of dilemma nine are:

- "We attract and hire the right quality of non-executives – we approach people of sufficient quality";
- "The best must be obtained";
- "The decision as to promote from within or without would normally be decided on the best person for the job i.e. with the ability to add value";
- "The decision will differ from company to company and therefore there is no fixed answer. The Board should be responsible for addressing the skills shortage and training in a manner appropriate for the company"; and
- "While this should be a dilemma, some companies don't face up to this and go for the less costly route."

The ninth dilemma was excluded accordingly from the list of core corporate governance dilemmas identified and from the remaining third and final round of the Delphi study.

5.2.3 Consolidation of Dilemmas

The above results were once again considered for reasonability against the literature and expert convergence around the core corporate governance dilemmas. The outcome of this process is a consolidation of the findings of round one and round two into six core corporate governance dilemmas facing boards. Section 5.4 discusses how the 12 dilemmas identified in the first two rounds of the study were condensed into the final six core corporate governance dilemmas. These six dilemmas were included in the third and final round of the Delphi study and are illustrated in Table 11.

Table 11: Final List of Core Corporate Governance Dilemmas Facing Boards

#	Dilemma
1	The board is tasked with holding a balance between *performance* (entrepreneurship, risk-taking and financial success) and *conformance* (prudent control).
2	The board must possess *sufficient knowledge* of the *day-to-day workings* of the business to be responsible for its actions whilst being able to find time to develop a longer-term *objective/independent 'helicopter'* view of the business and developments outside (policy formulation).
3	The board must be mindful of *short-term local demands* (e.g. risk management, control, and overseeing performance) whilst being able to balance these against *broader long-term, national and international trends and competition* (strategic thinking).
4	The board is required to focus on the *business' commercial needs* whilst operating *responsibly to all stakeholders* in society (customers, suppliers and society) and in the business (employees and business partners).
5	The board is tasked with holding a balance between addressing board succession for *diversity, complimentary skills* and *independence* and keeping the current set of very competent and successful directors for *continuity*.
6	The board must hold a balance between *incurring shareholder activism* and *failure to source further funding* as a result of lower profit levels and *incurring increased wage demands, calls for price reductions* and *complacency* as a result of exceptionally high profit levels.

5.3 Comparison with the Literature

A comparison of the six core corporate governance dilemmas and those gleaned from the literature review indicates that four of the dilemmas generated in the study provide support for the dilemmas developed in the literature review. Two additional dilemmas were identified in the current study (dilemmas five and six in Table 11 above).

5.4 Interpretation of the Dilemmas Identified

Analysis of the theory will indicate that the 12 dilemmas identified in the first two rounds of the study (Table 10) can be condensed into the six core corporate governance dilemmas as discussed in Section 5.2.3 above. This particular section attempts to justify and explain the consolidation of the 12 dilemmas into the final six core corporate governance dilemmas and to verify the findings of this study by relating them to the literature developed and to other previous studies. The basis of this discussion is that the 12 dilemmas that were condensed are represented as manifestations of the final six dilemmas. Additional manifestations are gleaned from the literature and from the Delphi study. This section relates directly to the first research question and uses the six dilemmas developed for the third round of the study as the framework for interpretation.

5.4.1 Core Corporate Governance Dilemma One

The first core corporate governance dilemma generated in the study was:

'The board is tasked with holding a balance between performance (entrepreneurship, risk-taking and financial success) and conformance (prudent control).'

This core dilemma supports the literature. The literature provides mention of the balance required between conformance and performance to ultimately drive shareholder value (Garratt, 1996; King Committee on Corporate Governance, 2002 and Sharman & Copnell, 2003). As described in the literature, this dilemma is characterised by relevant drivers and dynamics and is manifested in different ways according to these characteristics. The findings affirm the negative impact of over-regulation on performance by mentioning the costs of compliance in terms of money and time. One panellist also mentioned the costs of ignoring compliance requirements in the form of litigation, fines and negative press.

On this basis, five of the 12 dilemmas identified can be consolidated into this core corporate governance dilemma.

Some of the comments provided by the panellists substantiate this dilemma and relate strongly to the literature review. Examples of remarks are:

- "Balancing 'compliance' against 'conformance' ensuring a business case for adopting recommended governance standards, rather than a focus merely on complying with King II. Pressure on boards and companies to follow strict compliance guidelines, without consideration necessarily for the economic aspects";

- "Costs of compliance inappropriately applied can be detrimental to economic performance without reciprocal operational benefits";
- "Heavy emphasis on meeting compliance requirements loses focus on strategic business direction to the detriment of effective board decisions";
- "Increasing regulation leads to bureaucracy, extra costs, need to employ more people in an administrative capacity and can lead to loss of entrepreneurial spirit and resistance to change";
- "On the other hand one needs to be flexible, innovative and entrepreneurial in order to survive in today's fast changing world, but this can lead to being involved in litigation and having to pay fines and having to lead with negative press coverage"; and
- "Directors have to force themselves to be disciplined and not distracted away from performance."

The first core corporate governance dilemma facing boards is manifested in the way of four of the 12 dilemmas identified in the study. These four dilemmas are displayed in Table 12 below.

Table 12: Manifestations of Core Corporate Governance Dilemma One

Performance	Conformance
Being focused on the *commercial needs* of the business.	Addressing *social charter* and *BEE priorities* in the form of government regulation.
High risk and *high reward*.	*More certain, consistent performance* and *earnings growth*.
Seizing major growth opportunities in *emerging markets.*	Protecting *profitable existing* business.
Keeping *established competence*.	Providing careers for previously disadvantaged employees (*employment equity* regulations).

Table 12 clearly illustrates through the manifestations, the extreme options, elements or propositions that are opposite to each other and imply conflicting gains. A middle ground, a balance or trade-off must be achieved between these options, elements or propositions on either side of Table 12.

The first of the four dilemmas displayed is:

'The board is tasked with holding a balance between addressing social charter and *BEE priorities* and being focused on the *commercial needs* of the business.'

The King Committee on Corporate Governance (2002) suggests that directors need to balance corporate governance needs with performance for financial success. This is the principal driver of the first core corporate governance dilemma described in the literature review (Institute of Directors, 1964; King Committee on Corporate Governance, 2002; Garratt, 2003 and Sharman & Copnell, 2003). In this instance, focussing on the commercial needs of the business implies the management of performance for financial success whilst addressing social charter and black economic empowerment (BEE) priorities constitutes addressing some of the corporate governance needs (conformance) as set out by the King Committee on Corporate Governance (2002). The King Committee on Corporate Governance (2002:36) states “Matters requiring specific consideration include: Policies defining social investment prioritisation and spending and the extent of initiatives to support black economic empowerment, in particular with regard to procurement practices and investment strategies.” Social charter and BEE priorities also include the reporting of progress to achieve targets in this regard (King Committee on Corporate Governance, 2002).

A director on the panel contested that a lack of BEE credentials could have a negative effect on the ability to acquire business and therefore on performance. The findings also asserted that the adoption of BEE credentials (conformance) implies a sharing of profits, thus negatively affecting performance. These views are also supported by the literature and relate to the dynamics of the dilemma (King Committee on Corporate Governance, 2002).

This dilemma supports the theory and is indicative of the current South African context and by virtue of its identification by the panel, it represents a key issue facing South African directors. It is therefore fair to say that the magnitude of this issue as a unique entity should not be at all undermined by its consolidation into the first core corporate governance dilemma. Some of the comments provided by the panellists that substantiate this dilemma according to the discussions above are:

- “Respects new political and democratic dispensation and policy priorities”;
- “If don’t have BEE credentials a company might loose or not get business but if have BEE credentials they need to share profits with others. Also expected to play according to rules that are unclear and which can change overnight”; and
- “A business which chooses to embrace BEE hopes to gain benefits from doing so – including better access to markets, to capital and government favour. At the other extreme a business may do the minimum to avoid penalties and gain the benefit of not incurring the costs associated with BEE.”

The second dilemma presented is:

'The board must hold a balance between *high risk* and *high reward* and more certain, *consistent performance* and *earnings growth*.'

The first core corporate governance dilemma generated in the study and supported by the theory suggests that the board must drive the business forward in an entrepreneurial manner whilst ensuring prudent control. The literature mentions that corporate entrepreneurship is one of the most important factors that drive business forward (Zahra, 1996; Zahra *et al*, 2000; King Committee on Corporate Governance, 2002; Garratt, 2003 and Myburgh, 2003). As described in the literature corporate entrepreneurship is concerned with taking greater risk for greater reward and future performance (Zahra, 1996; Zahra *et al*, 2000 and Sharman & Copnell, 2003). Conformance is associated with control such as risk mitigation and controlled entrepreneurial activity, which could stifle high gains and lead to more consistent performance

(Zahra, 1996; Zahra *et al*, 2000 and King Committee on Corporate Governance, 2002). Control of risk ensures consistent performance by preventing losses due to considerable risk (Zahra *et al*, 2000). Myburgh (2003) suggests that conformance reduces risk and decreases the likelihood of bad things happening to a company such as inconsistent performance and growth. The findings support the literature thus justifying the consolidation of this dilemma into core corporate governance dilemma one developed in this study. Some of the comments provided by the panellists that encapsulate the substance of this dilemma according to the discussions above are:

- "The board carries the responsibility of setting an organization's risk appetite. The implications of taking on risky strategies that fail can be very damaging. On the other hand low risk translates into low earnings growth";
- "For value growth, risks need to be undertaken and managed. But in uncertain financial markets low downside risks or guaranteed investment products are required by clients";
- "To not accept risk, will put a business under (i.e. no earnings). Accepting too much risk/ the wrong risks can also lead to failure"; and
- "Here the dilemma is simple – high risk and the possibility of high returns on the one side - and low risk and more modest but more certain returns on the other."

The third dilemma displayed is:

'The board is tasked with holding a balance between seizing major growth opportunities in *emerging markets* and protecting *profitable existing business*.'

Goedhart & Haden (2003) state that emerging market investments are exposed to additional risks if not sufficiently diversified. These risks include among others, accelerated inflation, exchange rate risks, adverse repatriation, fiscal measures, macroeconomic and political distress. Sisk (2004) believes that political risk matters more than ever when making emerging market investment decisions. An emerging market investment is merely one example of a major opportunity to be capitalized on in an emerging market. In addition, Derrabi & Leseure (2003) conclude that emerging markets are riskier and potential returns are higher whilst Harvey (1995) suggests that emerging markets display impressive average expected returns and high volatility and risk. In the same context of returns, as supported by the literature review, investors are willing to pay higher premiums for well-governed companies in emerging markets than they are in developed countries. Due to the facets of greater expected returns and higher premiums in emerging markets, company leaders are especially attracted to opportunities in these markets and for these reasons this dilemma represents a major issue facing directors. In this light, risks are greater than those in profitable existing markets and businesses.

According to the findings and the literature, this dilemma is another form of the dilemma requiring a balance between high risk and high reward and more consistent returns, and by the same token, can be condensed into the first core corporate governance dilemma developed in the study. A comment provided by a chairman that succinctly captures the essence of this dilemma according to the discussions above is:

"…higher growth opportunities in new emerging markets need to be balanced with profitable existing markets".

The fourth dilemma presented is:

'The board must hold a balance between providing careers for previously disadvantaged employees (*employment equity*) and *established competence*.'

Employment equity is an act and requirement of conformance in the context of corporate governance in South Africa. This is confirmed by legislation introduced during the social and political transformation of South Africa in the form of the Employment Equity Act (No. 55 of 1998) to ensure that the South African legacies of apartheid in the workplace are redressed (King Committee on Corporate Governance, 2002 and Thomas, 2002).

Thomas (2002) points out that over-regulation in the labour market could result in decreased investment from abroad, a decrease in entrepreneurial activity, an increase in monitoring and enforcement costs, an increase in the price for sparse black skills, an increase in under-performance and a decrease in quality and customer service which would all ultimately affect performance. The literature suggests that over-conformance and control constrains entrepreneurial behaviour and reduces performance (Zahra *et al*, 2000; King Committee on Corporate Governance, 2002 and Sharman & Copnell, 2003). These views constitute the dynamics of the first core corporate governance dilemma as described in the literature and are conveyed by one of the panellist members who said, "Can reduce efficiency and profitability of the company."

Adams (1993) and Thomas (2002) also argue that the South African workplace is characterised by a lack of trust, poor teamwork, low levels of productivity and adversarial relationships due to over-regulation in the labour market. Glazer (1987) asserts that affirmative action results in a reduction in product quality and service and Lynch (1989) asserts that affirmative action results in a significant increase in administrative, social and labour costs.

This dilemma is also indicative of the current South African context and by virtue of its identification by the panel, it represents a key issue facing South African directors.

The arguments presented about the effects of an overemphasis on conformance or on performance support the literature (Marks, 1999; Zahra *et al*, 2000; King Committee on Corporate Governance, 2002; Daily *et al*, 2003; Sharman & Copnell, 2003 and Sundaramurthy & Lewis, 2003). Some of the comments provided by the panellists that convey the essence of this dilemma according to the discussions above are:

- "Employment Equity (EE) Provides career opportunities for previously disadvantaged employees"; and

- “Can reduce efficiency and profitability of the company.”

5.4.2 Core Corporate Governance Dilemma Two

The second core corporate governance dilemma generated in the study was:

'The board must possess *sufficient knowledge* of the *day-to-day workings* of the business to be responsible for its actions whilst being able to find time to develop a longer-term *objective/independent ’helicopter’* view of the business and developments outside (policy formulation).'

The literature provides mention of the balance required between sufficient knowledge of the daily workings of the organisation and possessing the capacity, capabilities and time to hold an objective long-term view of the business (Garratt, 1996 and King Committee on Corporate Governance, 2002).

As stated by Sundaramurthy & Lewis (2003), it is a requirement of the board to be intimate with the detailed affairs of the business whilst maintaining independent judgement. The literature confirms this by explaining that the board must understand the business in detail in order to fulfil its duties to stakeholders of accountability, feedback, understanding and analysis of detailed company performance measures (Tricker, 1984; Garratt, 1996 and Cornell, 2003). This need also fulfils the duty of understanding signals of distress in a timely fashion and of contesting managements’ views to operate efficiently and effectively (Carter & Lorsch, 2003 and Scherrer, 2003). A director on the panel suggested that boards should manage this need for detailed information carefully to guard against information overload and to circumvent the negative impact of this action on the independent view of the organisation. An overload of information results in the consumption of valuable time required for developing a strategic external view of the business. The findings in this regard, point to the negative impact of one side of the dilemma (detailed knowledge of the business) on the opposing side of the dilemma (independent view) which confirm the dynamics of the dilemma as conveyed in the literature.

The literature also confirms the need for directors to remain independent to understand the emotional aspects of the business to achieve its greater purpose through strategic positioning in all external political environments (Garratt, 1996 and Suter, 2003). Garratt (1996) and Scherrer (2003) posit that an independent ‘helicopter’ view of the business will contribute significantly to long-term sustainability, stability, profitability and responsiveness in all competitive environments.

In summary, this core dilemma supports the second dilemma described in the literature.

Some of the comments provided by the panellists capture the essence of this dilemma and are supported by the literature review. Examples of remarks are:

- “Directors are expected to operate at a strategic level, NOT getting involved in day to day affairs, thereby giving them an independent view. However, governance requires detailed knowledge of operations”;
- “Sufficient information to be able to debate and question and make independent and informed decisions on behalf of the company”; and
- “Not getting too involved in the day to day operations of the business and not being provided so much information so that there is an information overload.”

Manifestations of the second core corporate governance dilemma are presented in Table 13 and are gleaned from the literature.

Table 13: Manifestations of Core Corporate Governance Dilemma Two

Sufficient Knowledge of Day-to-Day Workings	Long-term Independent/Objective Helicopter View
Having sufficient time to build knowledge through an *'inward-looking'* perspective.	Having sufficient time to build knowledge through an *'outward-looking'* perspective.
Having *in-depth knowledge* of and *intimacy* with the affairs of the corporation for accountability.	Being *independent*.
The need to know the *detailed workings of the company*.	The need to be aware of the *socio-emotional* aspects of the company (purpose, vision, values, emotional climate and culture) to set *corporate policy* and to position the company in all applicable *political environments* (including social, economic and trade aspects).

Table 13 illustrates through the manifestations, the extreme options, elements or propositions that are opposite to each other and imply conflicting gains. A middle ground, a balance or trade-off must be achieved between these options, elements or propositions on either side of Table 13.

5.4.3 Core Corporate Governance Dilemma Three

The third core corporate governance dilemma developed by the study was:

'The board must be mindful of *short-term local demands* (e.g. risk management, control, and overseeing performance) whilst being able to balance these against *broader long-term, national* and *international trends* and *competition* (strategic thinking).'

This dilemma directly represents the third dilemma discussed in the theory. The literature outlines this task as one of the most significant roles of the board (Institute of Directors, 1964; Dimma, 1995; Garratt, 1996; Spira, 2001; Cornell, 2003 and Taylor, 2003). Percy (1995) clearly places an emphasis on the conflict between daily short-term management of the business and strategic thinking, thus confirming its stature as a dilemma. A director that said, "Boards often get involved in managing the operations instead of/at expense of providing strategic direction", corroborated this notion of conflict. A second member of the panel suggested that short-term pressures are incurred by financial markets and by stakeholders, as is the view of some of the authors (Percy, 1995 and Graham *et al*, 2004).

Some of the comments provided by the panellists that substantiate this dilemma are:

- "A long-term strategy for sustainability is generally not the same as a short-term business strategy to maximise the value of the organisation. The financial markets and most stakeholders have a short-term focus"; and
- "Boards often get involved in managing the operations instead of/at expense of providing strategic direction."

Manifestations of the third core corporate governance dilemma are presented in Table 14 and are gleaned from the literature.

Table 14: Manifestations of Core Corporate Governance Dilemma Three

Short-term Local Demands	Broader Long-term trends and Competition
Organisational efficiency in the form of *short-term* internal supervision and control of management.	*Organisational effectiveness* in the form of *long-term* strategic thinking (resource allocation and processes to implement strategy) respectively.
Maintaining *short-term earnings targets* and *smooth earnings*.	*Long-term sustainability* and setting of *corporate direction* of the business.

Table 14 also clearly illustrates through the manifestations, the extreme options, elements or propositions that are opposite to each other and imply conflicting gains. A middle ground, a balance or trade-off must be achieved between these options, elements or propositions on either side of Table 14.

5.4.4 Core Corporate Governance Dilemma Four

The fourth core corporate governance dilemma identified in the study was:

'The board is required to focus on the *business' commercial needs* whilst operating *responsibly to all stakeholders* in society (customers, suppliers and society) and in the business (employees and business partners).'

This dilemma is the fourth dilemma discussed in the literature review. Four of the 12 dilemmas identified in the first two rounds of the study can be consolidated into this core corporate governance dilemma.

The literature provides mention of the balance required between maintaining a focus on the commercial needs of the business and operating fairly and responsibly to all stakeholders (Garratt, 1996; King Committee on Corporate Governance, 2002; Coyle, 2003 and Smith, 2003). Two of the directors confirmed this requirement by stating, "The interests of all staff (fair pay and benefits and healthy working environment) also needs to be balanced against maximizing shareholder returns," and "Balancing the interests of shareholders with the interests of other stakeholders such as employees, customers, society and in general, the environment."

The findings also affirm the negative impact of social performance on economic performance by alluding to the costs of dealing with HIV/AIDS in the workplace, to the costs of compliance and to the reduction of profits and dividends. On the other hand, the findings verify the possible negative impact on performance of ignoring social responsibilities by suggesting that the success and competitiveness of business is reliant on stakeholders and ignoring them could be contradictory to achieving company objectives.

The literature refers to the difficulty in coping with this dilemma due to the set of diverse stakeholders. Furthermore, stakeholder needs are difficult to define, as are the ever-changing and intangible measures of social performance (Hampden-Turner, 2003). The findings support this notion by referring to the difficulty in identifying stakeholders and their conflicting objectives.

Some of the remarks provided by the panellists that capture the essence of this dilemma according to the discussions above are:

- “The competitiveness and success of a business is dependent on a range of different resource providers and hence the board must take into account all stakeholders who have a direct interest in the objectives of the company”;
- “Recognise the wider implications of corporate responsibilities and impact on society”;
- “Appreciate economic and business impact of corporate citizenship issues, e.g. communities affected by factory operations, HIV/AIDS on labour costs and healthcare, human capital development, etc”;
- “Cost of complying can impact economic benefits distributable to shareholders”;
- “Stakeholders can be difficult to identify and can have conflicting objectives among themselves that places the company in an awkward position”;
- “Triple Bottom Line reporting has focused director’s attention on company spend outside of expenses related directly to a company’s operations. Environmental/social spend reduces shareholders earnings. The interests of all staff (fair pay and benefits and healthy working environment) also needs to be balanced against maximizing shareholder returns”;
- “Companies are *expected* to support charities and deserving causes. This support reduces profits and dividends, which may not be acceptable to investors”;
- “Getting balance right between interests of shareholders, executives and other stakeholders”; and
- “Balancing the interests of shareholders with the interests of other stakeholders such as employees, customers, society and in general, the environment.”

Therefore the fourth core corporate governance dilemma facing boards is manifested in the way of four of the 12 dilemmas identified in the first two rounds of the study. The remaining manifestations are gleaned from the literature. These are illustrated in Table 15.

Table 15: Manifestations of Core Corporate Governance Dilemma Four

Commercial Needs (for Shareholders)	Responsibility to all Stakeholders
Prudent cost *control*.	*Attractive remuneration* for directors to acquire and retain talent.
Being focused on the *commercial needs* of the business.	Addressing *social charter* and *BEE* priorities.
Keeping executive *remuneration* at *national* levels to satisfy the media, investors and shareholders.	Setting executive *remuneration* at *international* levels to retain talent.
Maintaining *established competence*.	Providing careers for previously disadvantaged employees (*employment equity*).
Economic goals.	*Social* goals.
Economic goals.	Managing the potential impact of *HIV/AIDS* in the workplace.

Table 15 clearly illustrates through these manifestations, the extreme options, elements or propositions that are opposite to each other and imply conflicting gains. A middle ground, a balance or trade-off must be achieved between these options, elements or propositions on either side of Table 15.

Two of the dilemmas are:

- 'The board is tasked with holding a balance between *attractive remuneration* for directors to acquire and retain talent and *prudent cost control*;' and

- 'Boards of multi-nationals must hold a balance between setting executive remuneration at *international levels* to retain talent and keeping executive remuneration at *national levels* to satisfy the media and investors.'

These dilemmas bear very close resemblance to the fourth core corporate governance dilemma developed in the study. As mentioned in the literature, a stakeholder is someone that has an interest or ‘stake’ in a company and is affected by the actions of that company (Hess, 2001 and Coyle, 2003). This includes shareholders, employee stakeholder groups, investors and media (Hess, 2001 and Coyle, 2003). It is fair to say that directors reside in the employee stakeholder group. Boards struggle to generate profits and control costs for shareholders whilst fulfilling their obligations to society and other stakeholders. As directors are stakeholders, providing attractive remuneration and remuneration at international levels constitutes an obligation to these stakeholders. Prudent cost control and keeping remuneration at national levels constitutes the control of costs for shareholders, investors and the media. This struggle that boards encounter is a direct representation of focussing on the business' commercial needs whilst operating responsibly and ethically to all shareholders and stakeholders and a balance of actions to address the needs of a diverse set of stakeholders simultaneously (Garratt, 1996, King Committee on Corporate Governance, 2002 and Coyle, 2003).

A remark provided by a panellist that captures the dynamics of this dilemma according to previous research is:

"For multi-national companies, remuneration levels need to be set according 'London or New York' standards. If this is not done, staff will simply be lost to offshore companies. The press and investing public are often critical of the salary levels they see in the annual report, without appreciating the global forces at play."

The third dilemma is:

'The board is tasked with holding a balance between *addressing social charter* and *BEE priorities* and being focused on the *commercial needs* of the business.'

This particular dilemma encapsulates boards' struggles to generate profits and control costs for shareholders whilst fulfilling their obligations to society and other stakeholders, resembling the fourth core corporate governance dilemma described in the literature. The dilemma essentially entails the difficulty of holding a balance between the economic needs and social needs of an organisation, thus of balancing the needs of a diverse set of stakeholders simultaneously (King Committee on Corporate Governance, 2002 and Hampden-Turner, 2003). Boards need to fulfil their obligations to society in order to survive in the long-term. As stated by Smith (2003), these obligations fall under the subject of corporate social responsibility (CSR). Social charter and BEE initiatives and actions contribute to promoting the well being of society in general by redressing the social imbalances and the economic exclusion of black people during apartheid in South Africa (King Committee on Corporate Governance, 2002 and Hamann, 2003). This is achieved through a diversification of control holdings in the corporate sector to 'historically disadvantaged' stakeholder groups and through addressing issues like rural development (Hamann, 2003 and Armstrong, 2004).

One of the directors alluded to the fact that social responsibility is necessary for trade. It is fair to say that the organisations these companies trade with are critical of companies that do not consider their corporate responsibilities important. This has a negative bearing on reputation and brand image, which could potentially negatively affect that economic status of the organisation (Smith, 2003).

This issue is pertinent to directors in South Africa for the very reasons pointed out by the King Committee on Corporate Governance (2002:114) as it states "Increasingly, South African companies are seen as agents of change not only for their own benefit but also for the benefit of their stakeholders."

Remarks provided by the panellists that capture elaborate on this dilemma according to the discussions above are:

- "Provides constructive vehicle for socio-economic change and public respectability"; and
- "Necessary for the redistribution of wealth in RSA and for companies and their customers to trade with government, mining and other organisations";

The fourth dilemma in Table 15 is:

'The board must hold a balance between providing careers for previously disadvantaged employees (*employment equity*) and *established competence*.'

Maintaining established competence in terms of retaining the current workforce would circumvent all the negative implications on performance of an excess of board focus on employment equity initiatives and actions as discussed in Section 5.4.1. Boards however need to fulfil their obligations to society by providing careers to previously disadvantaged employees in order to survive in the long-term. This is done to ensure that the South African legacies of apartheid in the workplace are redressed (King Committee on Corporate Governance, 2002 and Thomas, 2002). Once again, this dilemma represents a balance between the economic needs and social needs of an organisation, thus balancing the needs of a diverse set of stakeholders simultaneously (Hampden-Turner, 2003). These stakeholders include shareholders and employees (Hess, 2001 and Coyle, 2003). This representation justifies the consolidation of this dilemma into the fourth core corporate governance dilemma developed in this study. A remark provided by the panel that captures the subject of the discussion above is:

“Seek opportunities to redress the wrongs of the past by enthusiastically embracing BEE and employment equity.”

5.4.5 Core Corporate Governance Dilemma Five

The fifth core corporate governance dilemma identified in the Delphi study was:

'The board is tasked with holding a balance between addressing board succession for *diversity, complimentary skills and independence* and keeping the *current set* of very *competent and successful* directors.'

The literature makes no mention of this dilemma. Thus this is a new finding, regarding corporate governance dilemmas facing boards. The manifestations of this dilemma were gleaned from the Delphi study and are illustrated in Table 16.

Table 16: Manifestations of Core Corporate Governance Dilemma Five

Diversity and Complimentary Skills	Continuity
Fostering *independence* and *objectivity* of the board, which is important for international investors and institutional credibility.	Keeping competent and successful directors for performance and *continuity*.
Blindly complying with King II in a small economy lacking in diversity of experience and independence.	*Keeping competent* and *successful* directors for *performance* and risking a heavier workload, additional risks and negative judgement by the market.

Some of the comments provided by the panellists that support the first manifestation in Table 16 are "Independence of boards is a major priority for international investors and institutional credibility" and "This is actually a dilemma of balancing continuity with diversity and old with new."

Examples of remarks that support the second manifestation are "Small economy does not provide the diversity of experience and independence, leading to quality of appointments being ignored or compromised to meet other societal pressures and obsession with blindly complying with King II" and "The predicament is whether the board should continue as a smaller unit and hence bear a heavier workload, additional risks and negative judgement by the market…".

The findings capture the dynamics of the dilemma by mentioning how the extreme options of the dilemma affect each other in ways that imply conflicting gains. For example, maintaining continuity of superior human capital with skill and experience could contribute positively to performance. Blind compliance for diversity in a market lacking experience and independence will possibly lead to poor quality in terms of appointments that would possibly affect performance negatively.

5.4.6 Core Corporate Governance Dilemma Six

The sixth core corporate governance dilemma identified in the study was:

'The board must hold a balance between incurring *shareholder activism* as a result of lower profit levels and incurring *increased wage demands, calls for price reductions* and *complacency* as a result of exceptionally high profit levels.'

The literature makes no mention of this dilemma. Thus this is also a new finding, regarding corporate governance dilemmas facing boards. The manifestation of this dilemma was gleaned from the study and is illustrated in Table 17.

Table 17: Manifestations of Core Corporate Governance Dilemma Six

Shareholder Activism and Failure to Source Funding	**Increased Wage Demands, Calls for Price Reductions and Complacency**
Mitigating/protecting *reputational risk* in light of *shareholders*.	Mitigating/protecting *reputational risk* in light of all other *stakeholders*.

Two examples of remarks by directors that corroborate the dilemma are “If profits are too low (i.e. losses) it makes it difficult to get finance and employees might consider leaving,” and “Need to make profits in order to satisfy demands of shareholders and financiers”. It is fair to say that the finding implies that low profits create a negative impression of the business from shareholder and stakeholder perspectives. As a result, some employees resign and shareholders do not invest. Another example of a remark is “If profits have increased considerably it can lead to increased wage demands from employees, calls from customers to reduce prices (“the reason you told us prices needed to increase is false”), competitors targeting customers with lower prices and arrogance and complacency (“we are successful and so don’t need others to tell us what to do”).” The findings imply that reputation is damaged in the event that higher margins and profits are not passed on to stakeholders and arrogance is cultivated. Both propositions imply conflicting gains.

Remarks confirming the dilemma's relevance to reputational risk are "…the problem becomes one of appropriate PR" and "Would agree with this only in context of protecting reputational risk."

5.5 Rating of the Core Corporate Governance Dilemmas Facing Boards

This section presents the results of the rating of the six core corporate governance dilemmas identified in the study and an interpretation of the findings. The section relates directly to the second research question.

As discussed in Section 4.7.3 the panel rated the core corporate governance dilemmas in the third round of the Delphi study on an importance scale of 1 to 10 where 1 was '*of little concern*' and 10 was '*most prominent*'.

5.5.1 Ratings Based on Median Scores

The median of the ratings for each dilemma was calculated. The relative importance of the six core corporate governance dilemmas developed can be extracted through comparison of their median scores. Table 18 illustrates the list of core corporate governance dilemmas and their evaluated median scores.

Table 18: Relative Importance Rating of Dilemmas Based on Medians

#	Dilemma	Median Score
1	The board is tasked with holding a balance between *performance* (entrepreneurship, risk-taking and financial success) and *conformance* (prudent control).	8
2	The board must possess *sufficient knowledge* of the *day-to-day workings* of the business to be responsible for its actions whilst being able to find time to develop a longer-term *objective/independent 'helicopter'* view of the business and developments outside (policy formulation).	6
3	The board must be mindful of *short-term local demands* (e.g. risk management, control, and overseeing performance) whilst being able to balance these against *broader long-term, national and international trends and competition* (strategic thinking).	7
4	The board is required to focus on the *business' commercial needs* whilst operating *responsibly to all stakeholders* in society (customers, suppliers and society) and in the business (employees and business partners).	6
5	The board is tasked with holding a balance between addressing board succession for *diversity, complimentary skills* and *independence* and keeping the current set of very competent and successful directors for *continuity*.	6
6	The board must hold a balance between *incurring shareholder activism* and *failure to source further funding* as a result of lower profit levels and *incurring increased wage demands, calls for price reductions* and *complacency* as a result of exceptionally high profit levels.	6

According to Table 18 the rating of the dilemmas by the experts in this research indicate that the most pertinent dilemma facing boards was that of having to maintain a balance between conformance and performance and that it is regarded highly. The results also illustrate that the need for a board to think strategically (long-term) and operationally (short-term) is also regarded highly. This is the second most important dilemma facing boards whilst the rest of the dilemmas are regarded as being equally important.

The first dilemma, which represents a balance between conformance and performance, is the only dilemma to be explicitly mentioned by the King Committee on Corporate Governance (2002). Furthermore, Garratt (2003) suggests that board conformance is concerned with regard for the law. Coyle (2003) believes that a significant factor driving the need for conformance is the recent spate of corporate failures. It is reasonable to postulate that a combination of these significant factors could form a major part of the reason for why this dilemma is regarded more highly by directors than others.

These findings are significant to directors in that they provide a means for prioritisation in terms of coping with these dilemmas. The prioritisation must be seen in the same context as the suggested best practices that the research attempts to identify for coping with these dilemmas. This will provide directors with greater focus regarding their roles and responsibilities.

5.5.2 Histograms of Ratings

A histogram of the ratings for each dilemma was plotted. These are illustrated in Figure 6 to Figure 11 below.

Figure 6: Histogram for Dilemma One Ratings

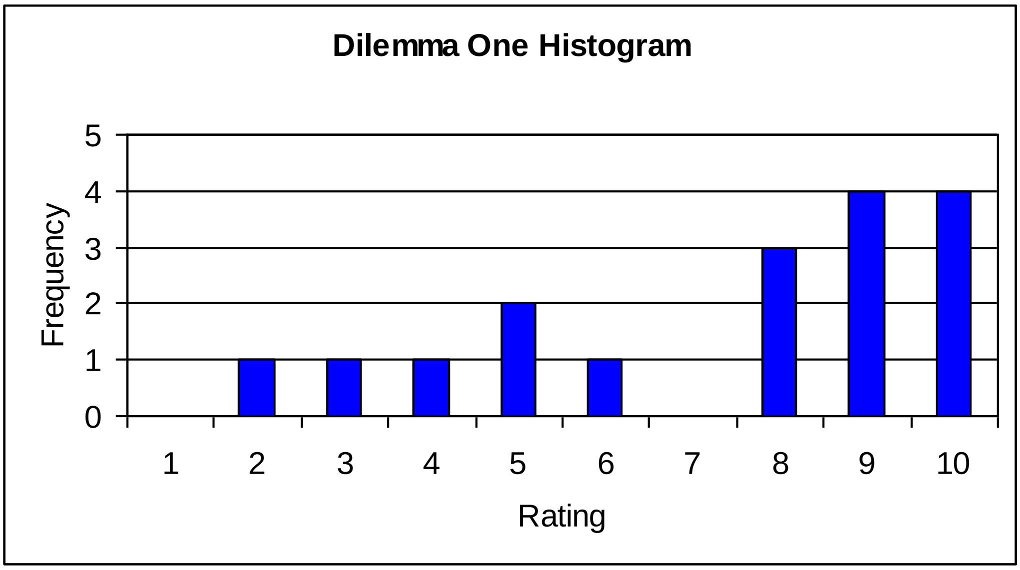


Figure 7: Histogram for Dilemma Two Ratings

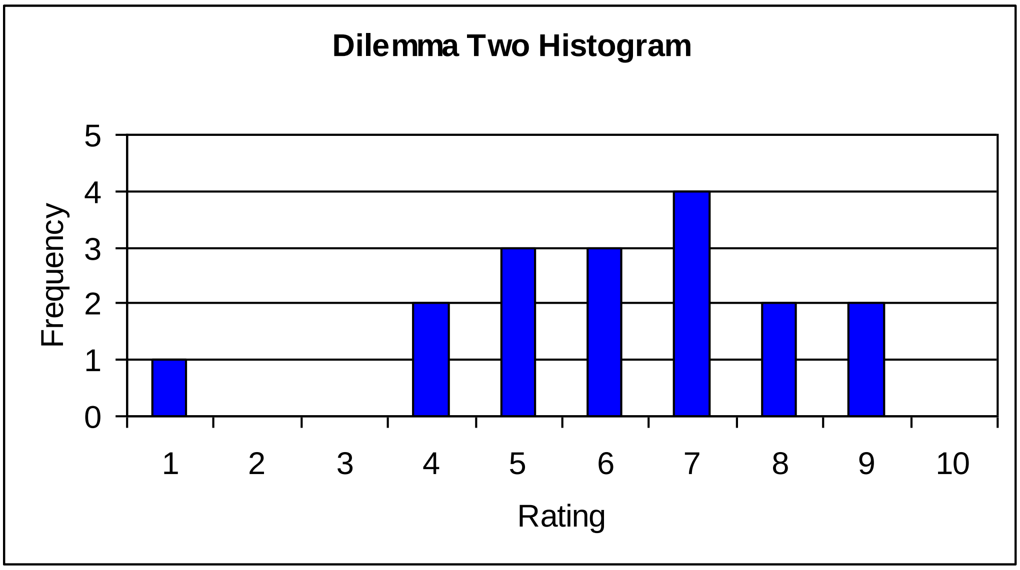


Figure 8: Histogram for Dilemma Three Ratings

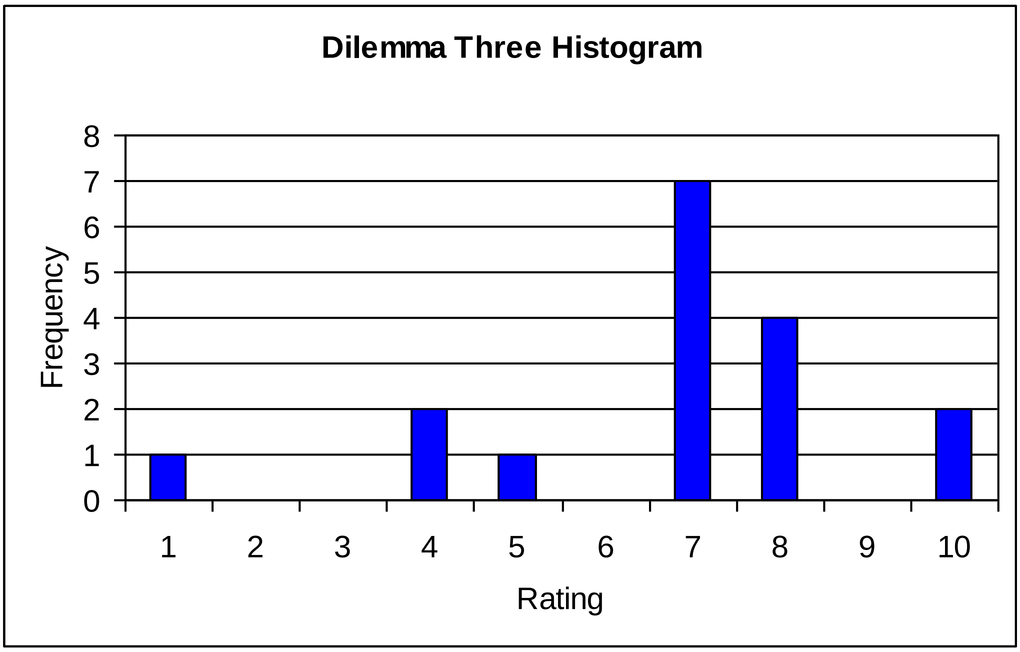


Figure 9: Histogram for Dilemma Four Ratings

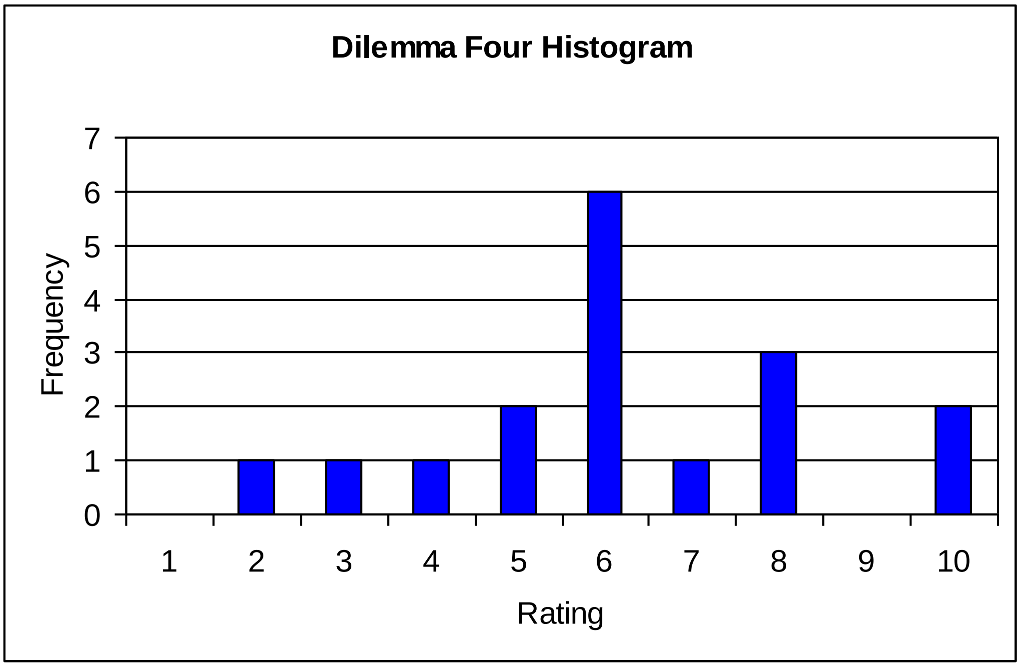


Figure 10: Histogram for Dilemma Five Ratings

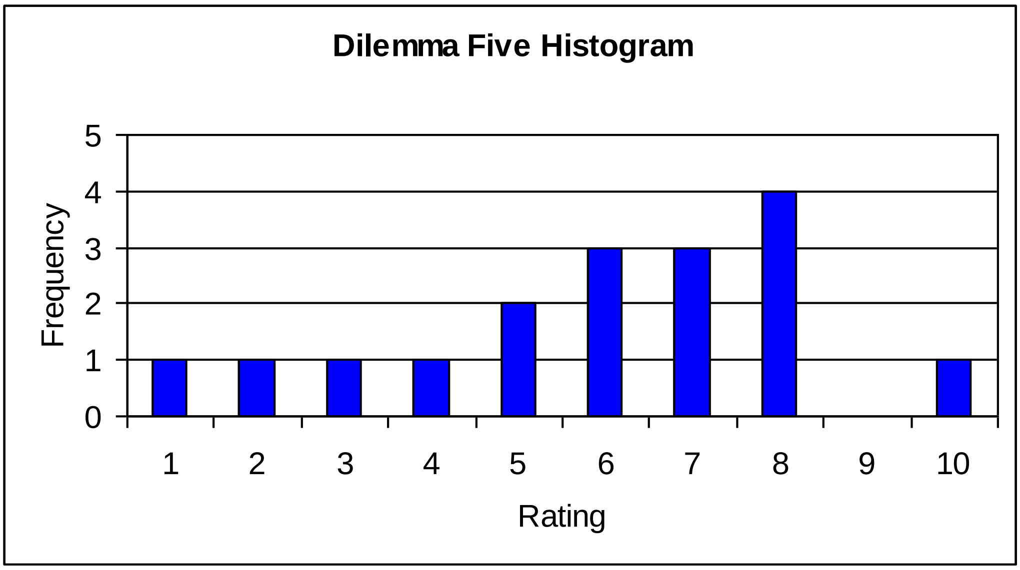


Figure 11: Histogram for Dilemma Six Ratings

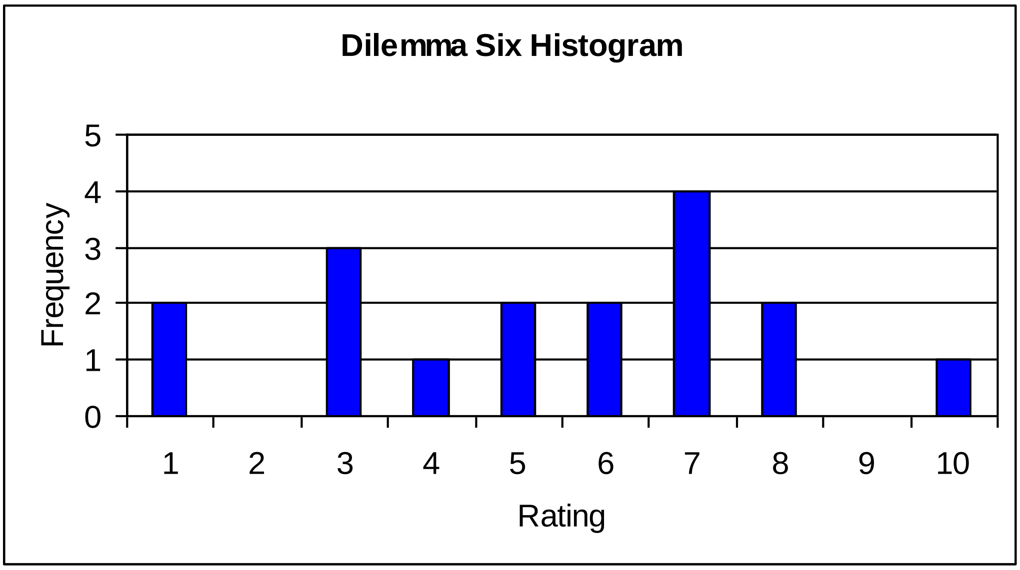


Figure 6 illustrates that it is quite clear that the majority of panel members agreed that the first dilemma is the most pertinent dilemma facing boards. Figure 8 and Figure 9 also present quite a high degree of convergence of panel members' opinions regarding the importance of these dilemmas and Figure 10 slightly less so. The distributions for dilemmas two and six (Figure 7 and Figure 11) are quite spread out and centred on the medians.

It is suggested that the divergence in opinions of the panel members for dilemma two is due to the fact that the members who portrayed divergent opinions were non-executive directors and CEOs who's opinions differed from the rest of the group regarding the role of a non-executive director. This means that they believe that non-executive directors are too far removed from the business to understand the detail and that they should rather focus on governance issues and on the selection of a CEO. A remark submitted by directors that support this view is "Not a big issue. Business far too complex and diverse for any non-exec to fully understand."

It is fair to posit that the divergence in opinions of the panel members regarding dilemma six is due to the fact that this dilemma varies in importance in different industries. One CEO said for example that pricing was determined through a tender process and that this was typical to their industry. Another reason for divergence of opinions in this regard could be due to the fact that the panel viewed dilemma six as an issue of organisational significance and not one of corporate governance. A remark supporting this notion is “More focus should be given to shared values and culture within the organisation.”

5.6 Best Practices for Coping with Dilemmas

This section presents the suggested best practices to cope with the six core corporate governance dilemmas developed in this study. The best practices were extracted through content analysis performed on the material from the third and final round of the Delphi study. The best practices will be presented for each of the six core corporate governance dilemmas developed by the study. The next chapter will provide an in-depth interpretation of the best practices presented here.

A number of categories were extracted through the content analysis for the best practices of each dilemma. The best practices represent actions that can be performed in these categories. For example, strategy is a category for strategic actions and a strategic action is ‘proper strategic planning’. This section will present the best practices for each dilemma within the categories generated from the study. The section relates directly to the third research question.

5.6.1 Core Corporate Governance Dilemma One

Each panel member was asked to provide what they believed would be best practice for coping with the issues of having to hold a balance between performance (entrepreneurship, risk-taking and financial success) and conformance (prudent control). Seven different categories were used to describe the best practices. The following table presents the best practices according to these themes.

Table 19: Best Practices for Coping with Dilemma One

Theme	Best Practice
Structure of balance.	Always apply both/and thinking.
	Accept the different views of different board members and ensure that they complement each other.
	Different businesses require different balances. Apply the balance appropriately.
	Different decisions require different balances. Apply the balance appropriately.
	Constantly assess and reassess whether a balance is achieved with each decision. Potential outcomes are difficult to measure.
	Changing circumstances lead to different dilemmas. Assess whether the dilemma is applicable to the situation at hand.
	Challenge management's desire and tendency to focus primarily on one side of the dilemma.
	Tailor the response to the dilemma.
Board composition, practices and committees	Develop a board charter aligned to the company strategy.
	The board must be competent and well balanced with appropriate skills, experience and interests.
	The board must allow enough time for the discussion of issues.
	The board must ensure that it practices governance in such a way that it is embedded in the way business is carried out.
	Establish balanced remuneration and performance structures.
Risk	Ensure proper risk management and control.
	Properly align risk models to capital models.
	Minimise the risks and costs of appeasing stakeholders with conflicting demands.
Strategy	Work towards medium to long-term sustainability.
	Proper strategic planning.
Business value	Circumvent blind compliance and box ticking. Add value.
	Conform but never destroy wealth.
Management	Reliable and useful management information for decision-making.
	Ensure a strong and well-balanced management team with the right skills, interests, experience and qualifications.
Stakeholders	An effective external communication process.
	Motivate difficult board decisions to all stakeholders.
	Create confidence amongst stakeholders in the board decision-making process.

5.6.2 Core Corporate Governance Dilemma Two

Each panel member was asked to provide what they believed would be best practice for coping with having to hold a balance between possessing sufficient knowledge of the daily workings of the business and finding the time to develop a longer-term objective and independent 'helicopter' view of the business and developments outside (policy formulation). Four different categories were used to describe the best practices for this dilemma. The following table presents the best practices according to these themes.

Table 20: Best Practices for Coping with Dilemma Two

Theme	Best Practice
Structure of balance	A compromise is not applicable. Both sides of the dilemma should receive equal attention at all times.
	Accept the different views of different board members and ensure that they complement each other.
Board composition, practices and committees	The board must be competent and well balanced with appropriate skills, experience and interests.
	An appropriate balance of executive and non-executive directors on the board.
	Employ and remunerate directors that have the capability and time to perform both tasks.
	Alleviates the dilemma if some of non-executive directors have previously been part of the management team.
	Gain an understanding of the company through site visits, discussions with management, strategy sessions and reading. This information must be absorbed for an objective and independent view and not for getting involved in the daily management of the business.
	Limit the number of boards directors sit on to approximately five or six.
	If the company has subsidiaries, some of the non-executives should serve on the main subsidiary boards.
	The board should concentrate on director duties whilst management should attend to the detailed running of the business.
	Sub-committees.
	Develop and implement an effective board induction and training programme with respect to business strategy, corporate governance and risk management and compliance.
	Regularly evaluate and adjust contents of training programme.
	Set time aside at each board meeting for training.
	Fair remuneration and share options for non-executive directors.
Strategy	The board must have a proper understanding of the high-level internal and external dynamics that drive the business without necessarily knowing the detail. For example, ensuring that supplier relationships are addressed and maintained without knowing who all the suppliers are and what the detailed relationships entail.
Management	Ensure a strong and well-balanced management team with the right skills, interests, experience and qualifications.
	Reliable and useful management information for decision-making.

5.6.3 Core Corporate Governance Dilemma Three

The panel members were asked to provide what they believed would be best practice for coping with the issues of having to hold a balance between being mindful of short-term local demands and broader long-term, national and international trends and competition (strategic thinking). Five different categories were used to describe the best practices. The following table presents the best practices according to these themes.

Table 21: Best Practices for Coping with Dilemma Three

Theme	Best Practice
Board composition, practices and committees	The board must be competent and well balanced with appropriate skills, experience, interests and qualifications.
	Good audit committee with knowledgeable and independent members focussed on internal control.
	Establish balanced remuneration and performance structures aligned to medium-term targets.
Risk	Ensure proper risk management and control.
	Hedge risks. Do not predict.
Strategy	Market requirements must be defined and understood. Short-term and long-term market requirements must be extracted and discernable.
	Proper strategic planning with long-term and short-term objectives. Include short-term budgetary process.
	Clear strategic goals that are prioritised, mutually exclusive and/or complimentary.
	Clear strategic vision.
	Clear strategic positioning.
	Business and short-term tactics aligned to long-term objectives.
	Work towards medium to long-term sustainability, especially in a company liable for short-term quarterly results.
	Proper and institutionalised strategy processes to force management to address strategic issues.
	Scenario planning.
Management	Ensure a strong and well-balanced management team with the right skills, interests, experience and qualifications to satisfy the relevant stakeholders in the short and long-term.
	Excellent management systems.
Other	Competent internal auditors.
	Develop and maintain the appropriate technologies to serve relevant markets in the long and short-term.

5.6.4 Core Corporate Governance Dilemma Four

Each panel member was asked to provide what they believed would be best practice for coping with the issues of having to hold a balance between focussing on the business' commercial needs and operating responsibly to all stakeholders in society (customers, suppliers, and society) and in the business (employees and business partners). Seven different categories were used to describe the best practices. The following table presents the best practices according to these themes.

Table 22: Best Practices for Coping with Dilemma Four

Theme	Best Practice
Structure of balance	Always apply both/and thinking.
	Accept the different views of different board members and ensure that they complement each other.
	Meet the commercial needs of the business to satisfy all stakeholders.
	Constantly assess and manage the cost of conformance.
	Constantly assess and reassess whether a balance is achieved with each decision. Potential outcomes are difficult to measure.
	Develop economic and social goals that complement each other and work towards a balance.
	Challenge management's desire to focus primarily on one side of the dilemma.
Board composition, practices and committees	The board must be competent and well balanced with appropriate skills, experience, interests and qualifications.
	Good audit committee focussed on internal control.
	The board must focus on the concepts of the triple bottom line and sustainable development.
	Establish balanced remuneration and performance structures.
Risk	Ensure proper risk management and control.
	Minimise the risks and costs of appeasing stakeholders with conflicting demands.
Strategy	Work towards medium to long-term sustainability.
	Proper strategic planning.
	Clear strategic goals that are prioritised, mutually exclusive and/or complimentary.
Management	Ensure a strong and well-balanced management team with the right skills, interests, experience and qualifications.
Stakeholders	An effective external communication process.
	Motivate difficult board decisions to all stakeholders.
	Create confidence amongst stakeholders in the board decision-making process.
	Work towards a business model that satisfies all stakeholders.
	Consider all stakeholders in all decisions taken.
Staff remuneration	Allow the market to dictate remuneration levels.

5.6.5 Core Corporate Governance Dilemma Five

The panel members were asked to provide what they believed would be best practice for coping with having to hold a balance between addressing board succession for diversity, complementary skills and independence and keeping the current set of very competent and successful directors for continuity. Three different themes were used to describe the best practices. The following table presents the best practices according to these themes.

Table 23: Best Practices for Coping with Dilemma Five

Theme	Best Practice
Structure of balance	Always apply both/and thinking.
	Cost benefit and risk analysis on each side of the dilemma.
	Consider the cost of competent directors that grow and sustain the wealth of the business.
	Circumvent blind compliance by dispelling the myth that South Africa has a shortage of skilled competent directors.
Board composition, practices and committees	Maximum number of three terms of three years each.
	Maximum age of 65 years.
	Role of the chairman is critical for independence i.e. ensure separation of the chairman and CEO roles.
	The board must be competent and well balanced with appropriate skills, experience, interests and qualifications.
	Employ and remunerate directors that have the capability and time to perform both tasks.
	Diversification comes with patience and mentorship.
	Sound succession plan for executive and non-executive directors must constitute part of the board agenda at all times.
	Establish balanced remuneration and performance structures.
	Develop and implement an effective board induction and training programme with respect to business strategy, corporate governance and risk management and compliance.
	Willingness to step down if not required.
Management	Ongoing performance and business needs reviews.

5.6.6 Core Corporate Governance Dilemma Six

The panel members were asked to provide what they believed would be best practice for coping with having to hold a balance between incurring shareholder activism and failure to source funding as a result of lower profit levels and incurring increased wage demands, calls for price reductions and complacency as a result of exceptionally high profit levels. Six different themes were used to describe the best practices. The following table presents the best practices according to these themes.

Table 24: Best Practices for Coping with Dilemma Six

Theme	Best Practice
Structure of balance	Always apply both/and thinking.
Board composition, practices and committees	The board must be competent and well balanced with appropriate skills, experience, interests and qualifications.
	Constantly apply the same values and principles.
	Duty of the board to make decisions in the best interest of the organisation, bearing in mind the needs of all stakeholders and shareholders.
Organisational	Astute labour relations department.
	Shared values and culture.
Strategy	Exactly satisfy all customer needs.
	Establish appropriate balance to ensure long-term going concern status of the company.
	Lowest cost producer in order to remunerate appropriately.
	Proper strategic planning with due consideration for all stakeholder demands.
Management	Management constantly aware and proactive.
	Complacency managed by target setting process with proper performance management systems.
	Ensure a strong and well-balanced management team with the right skills, interests, experience and qualifications.
	Daily management conducted with intelligent flexibility, bearing in mind strategic goals.
Stakeholders	An effective external communication process.
	Active and transparent communication.
	Communicate to stakeholders that their needs are understood.
	Communicate to stakeholders that needs of all stakeholders must be met and that compromise is inevitable.
	Motivate difficult board decisions to all stakeholders.
	Create confidence amongst stakeholders in the board decision-making process.
	Appointment of corporate affairs spokesperson.
	Reconcile demands of all stakeholders in all decisions taken.
	Good reporting process.
	Constant assessment of company reputation with stakeholders.

5.7 Validity and Reliability

This section outlines the validity and reliability of results as pointed out in Section 4.9.

As mentioned in Section 4.9 the sample used in the Delphi study was small and purposive in nature and was not intended to be representative of the population. External validity could therefore not be verified but the sample was considered adequate for sound conclusions to be drawn. The results are cogent and plausible.

The Delphi technique ensured internal validity by directing respondents to identify and rate the core corporate governance dilemmas facing boards themselves, thereby removing bias and ensuring that corporate governance dilemmas identified in the literature do indeed exist in practise.

The questionnaires used for communication with respondents included explicit explanations and definitions. The researcher also sent out questionnaires with different sequences of the dilemmas to be rated. Furthermore, the study was conducted in a real life situation. These measures improved the degree of reliability considerably.

By virtue of the discussion in this section, the study is confidently valid and reliable.

5.8 Conclusion

The qualitative study confirmed that four of the core corporate governance dilemmas developed in the literature review, together with the addition of another two dilemmas do in fact constitute the core corporate governance dilemmas facing boards.

The qualitative study also served to determine the level of importance of each of the core corporate governance dilemmas identified in the study. All dilemmas were similar in terms of their levels of importance with the exception of two, which were deemed most important. These are:

'The board is tasked with holding a balance between *performance* (entrepreneurship, risk-taking and financial success) and *conformance* (prudent control);' and

'The board must be mindful of *short-term local demands* (e.g. risk management, control, and overseeing performance) whilst being able to balance these against *broader long-term, national* and *international trends* and *competition* (strategic thinking).'

Both of these dilemmas were developed in the literature review.

Finally, the study identified best practices to cope with the identified dilemmas. The next chapter provides an in-depth interpretation and explanation of these practices.

CHAPTER 6: CONCLUSIONS

6.1 Introduction

This chapter attempts to present and discuss the main findings of the study and to provide an in-depth interpretation of the findings pertaining to the third research question. The third research question was:

'What are the proposed best practice suggestions for coping with the core corporate governance dilemmas facing boards?'

A conceptual model of best practice is developed and the implications for boards presented. This chapter will present the relationship between best practice and the core corporate governance dilemmas developed in the study. The chapter is concluded with suggestions for further research.

6.2 Main Findings

The results of the study indicate that there are six core corporate governance dilemmas facing boards, providing an answer to research question one. These dilemmas are presented in Chapter five. The findings concur with the literature with the exception of two dilemmas namely:

'The board is tasked with holding a balance between addressing board succession for *diversity, complimentary skills* and *independence* and keeping the *current set of very competent* and successful directors;' and

'The board must hold a balance between incurring *shareholder activism* as a result of lower profit levels and incurring *increased wage demands, calls for price reductions* and *complacency* as a result of exceptionally high profit levels.'

It was shown that the most important dilemma was:

'The board is tasked with holding a balance between *performance* (entrepreneurship, risk-taking and financial success) and *conformance* (prudent control).'

This dilemma was rated highest with a median score of eight whilst ratings of the remaining dilemmas strongly imply similarity of importance with median scores of seven and six. These ratings provide the answer to research question two.

Finally, the results suggest best practice competencies that boards can develop to manage paradox. The conceptual competency model will be interpreted in this chapter. This best practice model provides the answer to the final research question.

6.3 Limitations

The sample taken in the study was small and purposive in nature. As a result, the sample was not representative of all directors, consultants and academics throughout South Africa.

This being the case, it was not the intention of the researcher to achieve a representative sample. The sample was expected to consist of subject matter experts with the relevant experience and authority to answer questions relating to the subject of corporate governance. Expertise was the primary goal of the Delphi method with regards to sample selection.

Another goal of the researcher was to acquire a cross-section of diverse opinions from the sample. This would have been achieved by equal numbers of consultants, academics and directors but due to lack of availability, this balance could not be achieved.

6.4 Recommendations - The Best Practice Model

The model is developed using the six dilemmas and the best practice results from Chapter five as a framework. It is recommended that boards adopt this model as a meaningful management tool should they wish to cope with paradox and specifically with the six dilemmas of corporate governance.

In order to set the context, it is important to note that paradox and dilemmas can only be managed and not solved or resolved (Handy, 1995 and Rhinesmith, 2001). Many authors emphasize the need for dilemma management in current times of diversity and change (Berry & Hülsmann, 2004). Dilemma management originated from Japanese management approaches in the early 1980's as the ability to cope with paradox was a key factor to success (Berry & Hülsmann, 2004).

6.4.1 Competencies Required to Manage Paradox

The best practice actions presented in Chapter five are specific activities that can be performed in different areas or categories of the business in order to cope with the six core corporate governance dilemmas. These areas or categories are strategy, board composition and practices, risk, value, management, stakeholders, structure of balance, remuneration and organisation. Greater meaning can be extracted from these actions with respect to how a board can shape itself and its management team to cope with paradox and specifically with the six corporate governance dilemmas identified in the study.

The best practice results presented in Chapter five can be categorized into specific competencies that boards and management teams require to cope with paradox. The best practices will be divided into the relevant competency categories in this section. These competencies concur with the literature presented in this chapter. Best practices can be categorized by virtue of the fact that each best practice contributes to the building and sustainability of these necessary competencies. The model in the following figure represents a consolidated view of these competencies.

Figure 12: Competencies Required to Manage Paradox

Diversity of approach	Engaging in open, honest dialogue	Striving for continuity	Committing to society and mankind
Flexible and adaptable	Learning through experience and action	Being open to the external environment	Relevant committees and departments

The best practice activities contribute to building these competencies and are discussed in the Section 6.4.1.1 to Section 6.4.1.8 according to the different competency categories.

6.4.1.1 Diversity of Approach

Table 25: Best Practices Relating to Diversity of Approach

Competency	Best Practice
Diversity of approach	▪ Always apply both/and thinking. ▪ The board must be competent and well balanced with appropriate skills, experience and interests. ▪ Establish balanced remuneration and performance structures. ▪ Ensure proper risk management and control. ▪ Properly align risk models to capital models. ▪ Minimise the risks and costs of appeasing stakeholders with conflicting demands. ▪ Reliable and useful management information for decision-making. ▪ Ensure a strong and well-balanced management team with the right skills, interests, experience and qualifications. ▪ Balanced and proper performance management systems. ▪ Appropriate balance of executive and non-executive directors. ▪ Some non-executive directors should have previously been part of the management team. ▪ Limit the number of boards directors sit on. ▪ The board should concentrate on director duties whilst management should attend to the detailed running of the business. ▪ Cost benefit and risk analysis of each side of a dilemma. ▪ Maximum age of 65. ▪ Maximum number of three terms. ▪ Separation of chairman and CEO. ▪ Sound succession plans. ▪ Support board succession for diversity by dispelling the myth that South Africa is short of skilled and competent directors.

Handy (1995) believes that dilemmas should be managed by keeping the balance between both horns of the paradox and by empowering different people to manage each horn. Rhinesmith (2001) argues that different parties should manage the conflicting and contradictory situations by optimising and not by maximising their positions and by having empathy for the other party's position. The parties must acknowledge the negative consequences of their actions on the other parties' positions. This implies that all parties should possess both intellectual and emotional intelligence. Rhinesmith (2001) refers to this as managing paradox in a paradox management grid. If diverse skills and people are used to manage different horns of a dilemma, people must trust, empower and have mutual confidence in their colleagues and take risks (Handy, 1995).

According to Richardson (1995) attitudes, systems and styles should reflect double-sided belief bases in order for leaders to be able to manage dilemmas. This implies the development, acquisition and cultivation of diverse worldviews. In order to cultivate and sustain these double-sided beliefs, companies must have balanced boards and balanced reward and performance systems and mechanisms in place (O'Neil & Pienta, 1994). Vance *et al* (2003) corroborate this view as they emphasize that research on managing paradox and dilemmas suggest that diversity and flexibility in thought is important. This means that in order to manage paradox, teams must develop thinking styles or employ balanced people that are both rational and sensing thinkers and both linear and non-linear thinkers using integrated systems perspectives. It follows from this that reward systems need to be balanced to drive appropriate behaviour. An example of rational thinking is calculated risk, feasibility and cost-benefit analysis. Garratt (1996, 2003) is of the view that boards make sub-optimal decisions due to their unwillingness to weigh the hard facts and a lack of a portfolio of thinking styles. He feels that many directors tend to rely on their sensing capabilities only rather than testing their assumptions with rational thought.

An example of where non-linear systems thinking can be used to manage a dilemma is when directors attempt to maintain increased profits for shareholders whilst being socially responsible. In this closed loop, profits can be used to invest in society, which in turn, improves company reputation and creates more business. This leads to greater profits, which can then be used for increased social investment, generating a positive and re-enforcing loop and enhancing the way in which similar dilemmas can be managed.

The best practices presented in Table 25 support this literature and contribute to diversity of approach with respect to facets like thinking styles, composition of the board, approaches to risk management, approaches to performance management and reward and roles and responsibilities.

6.4.1.2 *Engaging in Open, Honest Dialogue*

Table 26: Best Practices Relating to Engaging in Open, Honest Dialogue

Competency	Best Practice
Engaging in open, honest dialogue	▪ The board must allow enough time for the discussion of issues. ▪ Accept the different views of different board members and ensure that they complement each other. ▪ Constantly assess and reassess whether a balance is achieved with each decision. Potential outcomes are difficult to measure. ▪ Constantly assess and manage the cost of conformance. ▪ Challenge management's desire and tendency to focus primarily on one side of the dilemma. ▪ Ongoing performance and business needs analysis. ▪ Develop economic and social goals that complement each other and work towards a balance.

Richardson (1995) and Vance *et al* (2003) suggest that in order to ensure that beliefs and thinking styles are diverse to cope with paradox in organisations, employees need to attract multi-perspectives and cross-cultural sensitivity and to accept that people with different perspectives should have their say. Cardno (1998) advocates that the competency at the heart of dilemma management is the ability to communicate well, providing honest feedback and quality information whilst removing barriers to fluent communication like that of defensiveness. Cardno (1998) believes that the only way to communicate openly is to be able to reflect critically and to challenge fundamental beliefs and assumptions, as boards should do when in dialogue to manage dilemmas. Garratt (1996) suggests that boards should have the competency to reflect and debate issues. This is also known as double-loop learning and requires both intellectual and emotional intelligence (Cardno, 1998). Cardno (1998), Rhinesmith (2001) and Vance *et al* (2003) advise that the requirements of open interaction are frequent meetings to understand diverse needs; self-awareness and sensitivity to diverse cultural differences; acquisition of valid information and challenging of assumptions; co-operation and complimentary views; constant monitoring and assessment of solutions and truth telling and being forthright.

Senge (1990) also suggests that assumptions can only be challenged through open dialogue and interaction where different worldviews are explored and others are learnt from. Richardson (1995) states that paradoxes are best managed through reflecting on fundamental beliefs and adjusting these worldviews through dialogue.

These views are consistent with those of the panel members in Table 26 and suggest that the board and management teams should have the competence to engage in honest and open dialogue.

6.4.1.3 Flexibility and Adaptability

Table 27: Best Practices Relating to Flexibility and Adaptability

Competency	Best Practice
Flexible and adaptable	▪ Different businesses require different balances. ▪ Different decisions require different balances. ▪ Changing circumstances lead to different dilemmas. Assess whether the dilemma is applicable to the situation at hand. ▪ Tailor the response to the dilemma. ▪ Adaptable systems and technology. ▪ Daily management conducted with intelligent flexibility, bearing in mind strategic goals. ▪ Develop and maintain appropriate and flexible technologies to serve markets in the long and short-term. ▪ Constantly aware and proactive management.

It is fair to posit that diversity of approach with respect to the board and management team as stated previously naturally facilitates flexibility and adaptability. Richardson (1995) asserts that in order to manage paradox, leaders need to create organisations and systems that employ opposing approaches simultaneously and flexibly and to shift attention effectively as contextual demands change. Berry & Hülsmann (2004) state the essence of this approach in that systems need to be kept flexible and capable of adapting to varying situations due to contradicting demands from customers, employees and investors. These should be dealt with depending on constraints relevant to the situation at hand such as importance, influence etc. Berry & Hülsmann (2004) also state that management configurations need to cope with opposing demands towards a system by maintaining an increasingly less consistent state and by bearing greater tensions due to contradictions. Handy (1995) supports this view by stating that organisations that cope well with dilemmas are able to work in small teams, business units and clusters that are capable of changing shape and membership as needs and conditions change. In addition to being flexible and adaptable, these groups share equal power and degree of empowerment (Handy, 1995).

These views are consistent with those of the panel in Table 27 and suggest that the board and management teams should cultivate a culture of flexibility and adaptability, using their diversity of approach.

6.4.1.4 Learning

Table 28: Best Practices Relating to Learning

Competency	Best Practice
Learning through experience and action	▪ The board must ensure that it practices governance in such a way that it is embedded in the way business is carried out. ▪ Gain an understanding of the company through site visits, discussions with management, strategy sessions and reading. This information must be absorbed for an objective and independent view and not for getting involved in the daily management of the business. ▪ If the company has subsidiaries, some of the non-executives should learn by serving on the main subsidiary boards. ▪ Develop and implement an effective board induction and training programme with respect to business strategy, corporate governance and risk management and compliance. ▪ Set time aside at board meetings for training. ▪ Regularly adjust contents of training program.

Cardno (1998) notes that the management of dilemmas is extremely difficult and that it heightens a sense of defensiveness in those that attempt to cope with the issues presented by dilemmas. Cardno (1998) believes that one way of overcoming this defensiveness and facilitating critical reflection and challenging of assumptions is through engaging in a learning process called double-loop learning. This notion suggests that boards and management teams need to constantly discover and modify practices that create barriers to open and honest dialogue and to seeking and monitoring solutions jointly (Cardno, 1998).

Garratt (2003) strongly suggests that boards should learn from previous decisions made with regard to the dilemmas facing them daily and from others in the business. Learning from previous decisions and mistakes will ensure that corporate governance is embedded in the way business is carried out. While governance should be embedded in the way business is practiced, boards should think beyond governance, as this is not the sole objective of directors. Boards are also required to make important decisions in the act of practicing good business. Garratt (2003) believes that learning from previous governance and business decisions should involve a rigorous structured cycle of learning. Garratt (2003) espouses the *learning board process* to assist directors in becoming more efficient and professional in terms of functions like dilemma management. The implication for directors is the 'professionalizing' of the board through rigorous appraisal, training and accreditation (Garratt, 2003).

The findings from the study concur with these notions and imply a learning board.

6.4.1.5 Striving for Continuity

Table 29: Best Practices Relating to Striving for Continuity

Competency	Best Practice
Striving for continuity	▪ Circumvent blind compliance and box ticking. Add value. ▪ Conform but never destroy wealth. ▪ Work towards medium to long-term sustainability. ▪ Clear strategic goals that are prioritised, mutually exclusive and/or complimentary. ▪ Clear strategic vision and positioning. ▪ Proper strategic planning with long-term and short-term objectives. Include short-term budgetary process. ▪ Proper institutionalised strategy process. ▪ Scenario planning. ▪ Establish appropriate balance to ensure long-term going concern status of the company.

Handy (1995) argues that one way of making sense of and managing paradox is by maintaining a sense of continuity, having faith in the future and the colleagues one relies on and by taking the necessary risks to support sustainability of the company and the surrounding environments. This view is particularly applicable to the dilemma of having to balance short-term local demands and long-term strategic demands, such that one is able to compromise in the present for one's future. A shared vision is necessary in an organisation so that directors and employees are able to see and understand the probable future that continuity strives for (Handy, 1995).

Handy's (1995) view is akin to creating value for the long-term and to planning strategically so as to ensure the long-term going concern of the business. The best practices provided by the study participants corroborate these notions and suggest that the board should strive to develop a competency for maintaining continuity.

6.4.1.6 Being Open to the External Environment

Table 30: Best Practices Relating to Being Open to the External Environment

Competency	Best Practice
Being open to the external environment	▪ An effective external communication process. ▪ Active and transparent communication. ▪ Communicate to stakeholders that their needs are understood and that compromises are inevitable. ▪ Appoint a corporate affairs spokesperson. ▪ Motivate difficult board decisions to all stakeholders. ▪ Create confidence amongst stakeholders in the board decision-making process. ▪ Good reporting process. ▪ Constant assessment of company reputation with stakeholders. ▪ Allow the market to dictate remuneration levels. ▪ Market requirements must be defined and understood. Short-term and long-term market requirements must be extracted and discernable. ▪ The board must have a proper understanding of the high level external dynamics that drive the business.

Herkstroter (1996) argues that businesses need to remain sensitive to the needs and concerns of all stakeholders in managing contradicting expectations. Berry & Hülsmann (2004) believe that in order to deal with the complexities of managing both horns of board dilemmas, a board system must deal with its own complexity whilst being open to the environment so as to absorb the complexities posed by its stakeholders. This implies that board systems must be capable of configuring themselves to deal with the horns or opposing demands of dilemmas simultaneously. An example is the dilemma of strategy i.e. coping with ideals and constraints simultaneously. These ideals and constraints exist externally and internally to a business. In the past, systems were perceived as entities that could arrange the external environment. This is not possible in the current complex business environment and implies that systems and processes should be configured to open up to the external environment (Berry & Hülsmann, 2004). It also implies constant two-way communication between the board and the external environment.

The best practices in Table 30 confirm that the board should be open to and attuned to the external environment.

6.4.1.7 Relevant Committees and Departments

Table 31: Best Practices Relating to Relevant Committees and Departments

Competency	Best Practice
Relevant committees and departments	▪ Good audit committee with knowledgeable and independent members focussed on internal control. ▪ Astute labour relations department. ▪ Appropriate sub-committees.

The findings of the study indicate that boards should establish the appropriate committees and departments in order to cope with the core corporate governance dilemmas developed in the study.

6.4.1.8 Committing to Society and Mankind

Table 32: Best Practices Relating to Committing to Society and Mankind

Competency	Best Practice
Committing to society and mankind	▪ Constantly apply the same values and principles. ▪ Work towards a business model that satisfies all stakeholders. ▪ Duty of the board to make decisions in the best interest of the organisation, bearing in mind the needs of all stakeholders and shareholders. ▪ Shared values and culture. ▪ Exactly satisfy all customer needs. ▪ Lowest cost producer to remunerate employees properly. ▪ The board must focus on the concepts of the triple bottom line and sustainable development. ▪ Always consider all stakeholders in all decisions.

In order to manage dilemmas, boards need to reconcile humanity with economics and to commit to making a difference along with those around them (Handy, 1995). Handy (1995), Richardson (1995) and Herkstroter (1996) assert that companies need to commit to society and mankind and to take account of all stakeholders to maintain a conscience. Richardson (1995) extends this idea by suggesting that the board should ensure that the organisation is a caretaker of natural resources.

Handy (1995) refers to these actions as 'holding corporate contract'. It is important to note how 'holding corporate contract' ties in with the notion of striving for continuity. In this instance, continuity relates to the environment and to society in general. Boards should aim to use profits as a mean to other ends and not as an end in itself (Handy, 1995).

O’Neil & Pienta (1994) support the notion that in order to cope with board dilemmas, the board should be an ethical board that performs good to the self whilst respecting others. Ethical behaviour and sensitivity to others can be garnered through appropriate reward systems and through the cultivation of an appropriate culture in the organisation (O’Neil & Pienta, 1994). This can also be accomplished through shared organisational values and through rigorous induction and training programs that focus on emotional intelligence development and attitudinal changes (O'Neil & Pienta, 1994).

The best practices presented in Table 32 concur with these views held by the authors and point to a board that is committed to 'holding corporate contract'.

6.4.2 Implications for the Board

The model in Figure 13 represents a consolidated view of the competencies that boards should develop in order to manage paradox and corporate governance dilemmas. The associated implications for the board are also presented for each competency.

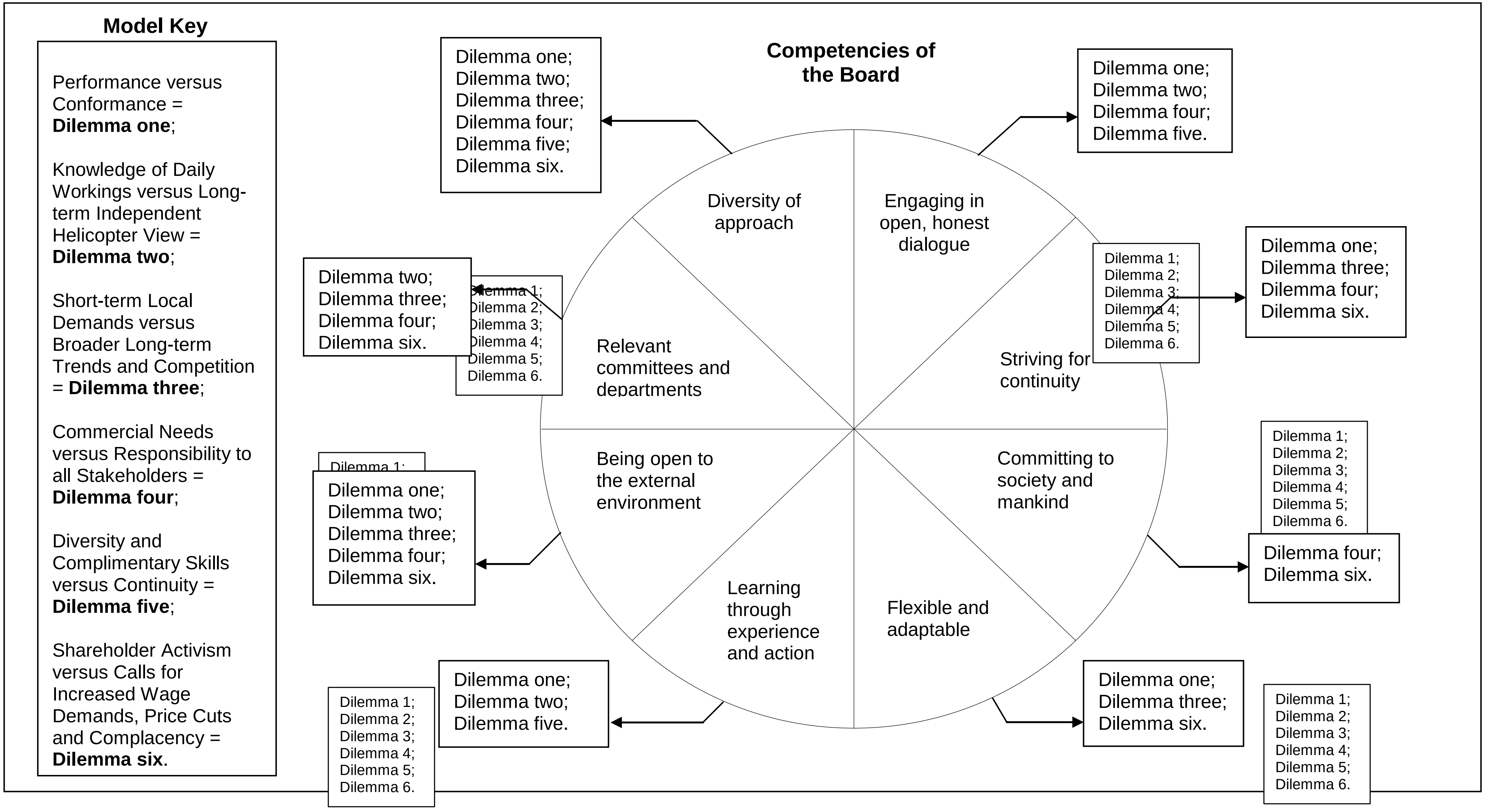
Figure 13. Board Implications for Competencies

Competencies	Implications
Diversity of approach	Balanced board, reward and performance systems. Double-sided belief bases and thinking styles. Mutual confidence, trust and ability to take risks. Need for intellectual and emotional intelligence. All parties to optimise positions, not to maximise.
Engaging in open, honest dialogue	Cross-cultural sensitivity and multiple perspectives. Honest communication and complementary views. Challenge fundamental beliefs. Need for intellectual and emotional intelligence. Frequent meetings with critical reflection.
Striving for continuity	Faith in the future and in colleagues. Taking necessary risks. Shared vision. Creating value for the long-term.
Committing to society and mankind	Ethical board commitment to society and mankind. Appropriate reward systems and culture of ethics. Rigorous induction and training focused on ethics and emotional intelligence.
Flexible and adaptable	Flexible organisations and systems. Less consistent state of management and board systems. Smaller flexible working units.
Learning through experience and action	Double-loop learning. Learn from previous dilemma decisions. Rigorous structured learning cycles. Rigorous appraisal, training and accreditation.
Being open to the external environment	Boards sensitive to concerns of all stakeholders. Boards, systems and processes should be configured to deal with internal and external conflicting demands simultaneously. Effective communication with external environment
Relevant committees and departments	Audit committee with independent members. Astute labour relations department. Appropriate sub-committees.

6.4.3 Further Insights

The model in the Figure 14 represents a full and combined view of what board competencies contribute to the management of each of the six core corporate governance dilemmas developed in the study. These relationships were garnered from the best practices and indicate what competencies are required to manage each dilemma.

Figure 14. Competencies Contributing to Dilemma Management



6.5 Suggestions for Further Research

The research focused on the core corporate governance dilemmas facing boards, the relative importance of these dilemmas and best practices for managing the dilemmas. This section will discuss a number of areas in which further research could be conducted to compliment or refine the findings of this study.

This study was conducted on a small purposive sample and the core corporate governance dilemmas facing boards should be explored and statistically tested on a much larger sample size. The sample could include individuals from companies in all industries, academic institutions, consultancies and geographic locations in South Africa for a broader view and transferability of the findings.

The study assumed that the views of directors were sufficient to explore the core corporate governance dilemmas facing boards. A more complete study should be carried out to include the views of company secretaries. The role of the company secretary is to facilitate good corporate governance by advising directors on their roles and responsibilities.

The findings of the study indicate that the dilemma representing a balance between conformance and performance rated highest of all the dilemmas identified. As stated in Chapter five this is the only dilemma to be explicitly mentioned by the King Committee on Corporate Governance and is strongly driven by the recent spate of corporate failures. It would be useful to conduct a similar study at a time when the focus on conformance and when corporate failures due to a lack of conformance have abated.

The differences in the ratings and the mix of the dilemmas identified could emanate from different focuses on these dilemmas in different industries. For example, the focus on conformance could be greater in the financial services sector due to a greater degree of regulation. A study should focus on how the mix and relative importance of the six dilemmas identified change by industry.

In Chapter two the fundamental differences between major corporate governance models in different countries is discussed. These differences could contribute to the mix and to the differences in relative importance of the dilemmas identified. Political differences could contribute to the identification and varied ratings of the six dilemmas. For example, dilemmas incorporating BEE issues are pertinent to the South African context. Other factors that may affect the mix and relative importance of different dilemmas identifies in the study are social and economic conditions in different countries. It would be interesting to determine how the mix and relative importance of the six dilemmas identified vary by country due to different corporate governance models and due to different social, economic and political conditions.

It is clear from the model developed in Section 6.4 that the board would require all the identified competencies in order to manage the dilemmas developed in the study. An investigation to complement this finding should be carried out to determine if all directors on the board need to develop these competencies or if the board is able to rely on some directors to possess some of the competencies whilst other directors possess the remaining competencies.

A complete investigation should be conducted with the aim of exploring the appropriateness/effectiveness of the best practices identified and the effect of the competencies a board should develop on managing core dilemmas facing boards. The model developed in Figure 14 should be tested for applicability. A study with practical implications should be carried out on a specific organisation.

Finally, an important question emanating from the study is whether the competencies required to manage paradox do not provide one with a clue to one of the possible dimensions of board effectiveness. An investigation should be conducted to determine if these competencies can be measured and if so, whether they do indeed contribute to board effectiveness as a new dimension thereof.

6.6 Conclusion

There has been little written specifically about corporate governance dilemmas facing boards. The literature combines a rich source of information to make inferences about core dilemmas facing boards. Since the literature was sparse on core corporate governance dilemmas facing boards, the findings of this research provide valuable insights into the core corporate governance dilemmas facing boards and their relative ratings. There has also been very little written about best practice to manage corporate governance dilemmas specifically. The literature has pointed to practices for managing dilemmas and paradox in general. The research findings therefore also provide valuable insight into how boards can manage paradox. This information will equip boards to cope with dilemmas and will provide directors with greater focus regarding their roles and responsibilities. The information will also provide organisations and directors with a tool to shape their boards so as to develop the necessary competencies to be able to make sense of paradox and to cope with the dilemmas they face on a daily basis.

This research is also an exercise in curiosity and hope. Curiosity about the effects that this study might have on corporate governance research and hope that academics, consultants and directors will find these dilemmas and the resulting competency model as compelling as the researcher does.

REFERENCES

Adams, C. (1993): *Affirmative Action in a Democratic South Africa*, Cape Town: Juta and Co.

African Institute of Corporate Citizenship (2002): *Socially Responsible Investment in South Africa,* Johannesburg: The AICC.

Armstrong, P. (2004): *Corporate Governance in South Africa – a Perspective from an Emerging Market*, Fifth Meeting of the Eurasian Corporate Governance Roundtable*,* Kyiv, 17-18 May, 1-27.

Baysinger, B.D., Kosnik, R.D. & Turk, T.A. (1991): Effects of Board and Ownership Structure on Corporate R&D Strategy, *Academy of Management Journal,* 34(1), 205-214.

Berry, A. & Hülsmann, M. (2004): *Strategic Management Dilemma: Its Necessity in a World of Diversity and Change*, SAM/IFSAM VII World Congress, Göteborg, 5-7 July, *Proceedings of the SAM/IFSAM VIIth World Congress on Management in a World of Diversity and Change*, 1-43.

Bicksler, J.L. (2003): What We Know and What We Don't Know About Corporate Governance, *Business Economics,* 38(2), 69 -73.

Brownlee, P.J.J. (1997): *Compliance with the King Code and Board Effectiveness*, Unpublished MBA Research Report, Johannesburg: University of the Witwatersrand.

Burton, P. (2000): Antecedents and Consequences of Corporate Governance Structures, *Corporate Governance,* 8(3), 194 -204.

Cadbury, A. (1999): Corporate Governance Overview, *World Bank Annual Report,* 1(19758), 1-370.

Cardno, C. (1998): Making a Difference by Managing Dilemmas, *Set Research Information for Teachers,* 13(1), 1-4.

Carter, C.B. & Lorsch, J.W. (2003): *Back to the Drawing Board*, first edition, Boston: Harvard Business School Press.

Cescon, F. (2002): Short-term Perceptions, Corporate Governance and the Management of R & D in Italian Companies, *Journal of Management and Governance,* 6(3), 255-270.

Charkham, J. (1995): Keeping Good Company, first edition, Oxford: Oxford University Press.

Clayton, M.J. (1997): Delphi: A Technique to Harness Expert Opinion for Critical Decision-Making Tasks in Education, *Educational Psychology,* 17(4), 373-386.

Cornell, B. (2003): The Information That Boards Really Need, *MIT Sloan Management Review*, 44(3), 71-76.

Cox, J. D. (2003): Reforming the Culture of Financial Reporting: The PCAOB and the Metrics for Accounting Measurements, *Washington University Law Quarterly,* 81(301), 301-327.

Coyle, B. (2003): *Corporate Governance*, first edition, London: ICSA Publishing Ltd.

Creswell, J.W. (1994): *Research Design: Qualitative and Quantitative Approaches*, London: SAGE Publications.

Critcher C. & Gladstone, B. (1998): Utilizing the Delphi Technique in Policy Discussion: A Case Study of a Privatised Utility in Britain. *Public Administration*, 76(3), 431-449.

Dagenais, F. (1978): The Reliability and Convergence of the Delphi Technique, *The Journal of General Psychology,* 98(2), 307-308.

Dahle, C. (2003): A Steelmaker's Heart of Gold*, Fast Company*, 71, 46-48.

Daily, C.M., Dalton, D.R. & Cannella, A.A. (2003): Corporate Governance: Decades of Dialogue and Data, *Academy of Management Review,* 28(3), 371-382.

Daily, C.M., Dalton, D.R. & Rajagopalan, N. (2003): Governance Through Ownership: Centuries of Practice, Decades of Research, *Academy of Management Journal,* 46(2), 151-158.

Derrabi, M. & Leseure, M. (2003): *Global Asset Allocation: Risk and Return on Emerging Stock Markets*, 20th International AFFI Conference, Lyon, 23-25 June, 1-25.

Dimma, W.A. (1995): *The Changing Role of the Board of Directors,* Conference sponsored by The Institute of Corporate Directors and The Planning Forum*,* Toronto, 11 October, 217-220.

Du Toit, J. & Burger, A. (2004): Tackling HIV/Aids in the Workplace, *European Business Forum,* 17, 70-71.

Erffmeyer, R.C., Erffmeyer, S.E. & Lane, I.M. (1986): The Delphi Technique: An Empirical Evaluation of the Optimal Number of Rounds, *Group & Organisation Studies,* 11(1-2), 120-128.

Freeman, R.E. & Harrison, J.S. (1999): Stakeholders, Social Responsibility, and Performance: Empirical Evidence and Theoretical Perspectives, *Academy of Management Journal,* 42(5), 479-485.

Garratt, B. (1996): *The Fish Rots from the Head*, first edition, Hammersmith: HarperCollins Publishers.

Garratt, B. (2003): *Thin on Top*, first edition, London: Nicholas Brealey Publishing.

George, B. (2003): Managing Stakeholders vs. Responding to Stakeholders, *Strategy and Leadership,* 31(6), 36-40.

Gill, B. & Thompson, A. (2003): The Impact of HIV/AIDS on Business in China, *The China Business Review,* 30(4), 6-35.

Glazer, N. (1997): *Affirmative Discrimination: Ethnic Inequality and Public Policy*, Cambridge: Harvard University Press.

Goedhart, M. H. & Haden, P. (2003): Are Emerging Markets as Risky as You Think?, *McKinsey on Finance,* 7,7-12.

Graham, J.R., Harvey, C.R. & Rajgopal, S. (2004): The Economic Implications of Corporate Financial Reporting, *NBER Working Paper*, w10550, 1-42.

Hamann, R. (2003): *Corporate Social Responsibility and its Implications For Governance: The case of Mining in South Africa*, The *oikos* Summer Academy for Sustainability Marketing, Management and Consumption, St Gallen, 28 July-1 August, 1-30.

Hampden-Turner, C. (2003): Strategic Dilemmas Occasioned by Using Alternative Scenarios of the Future, in *Developing Strategic Thought, A Collection of the Best Thinking on Business Strategy,* B. Garratt (ed.), second edition, London: Profile Books Ltd, 119-168.

Handy, C. (1995): *The Empty Raincoat*, first edition, London: Random House Business Books.

Hansen, K. (2003): A Plague's Bottom Line, *Foreign Policy,* 137, 26-27.

Hartley, C., Firer, C. & Ford, J. (2000): *Business Accounting and Finance,* fourth edition, Oxford: Butterworth-Heinemann.

Hartslief, M.A. (2003): *The Structure and Function of the Board of Directors,* Unpublished MBA Project Report, Johannesburg: University of the Witwatersrand.

Harvey, C. R. (1995): Predictable Risk and Returns in Emerging Markets, *The Review of Financial Studies,* 8(3), 773-816.

Hemphill, T.A (1996): Enterprise Strategy and Corporate Environmental Alliance, *Business Forum,* 21(1-2), 8-12.

Herkstroter, C. (1996): Dealing with Contradictory Expectations: Dilemmas Facing Multinationals, *Vital Speeches of the Day,* 63(4), 100-105.

Hess, D. (2001): Regulating Corporate Social Performance: A New Look at Social Accounting, Auditing, and Reporting, *Business Ethics Quarterly,* 11(2), 307-330.

Higgs, D. (2003): *Review of the Role and Effectiveness of Non-Executive Directors*, London: The Department of Trade and Industry.

Institute of Directors (1964): *Standard Boardroom Practice,* revised edition, London: Institute of Directors.

Institute of Directors (1995): *Standards for the Board,* revised edition, London: Institute of Directors.

Keay, M. (2002): *Towards Global Corporate Social Responsibility,* The Royal Institute of International Affairs Sustainable Development Programme, Chatham House, April*, Briefing Paper No. 3*, 1-8.

Kendall, N. & Kendall, A. (1998): *Real-World Corporate Governance,* first edition, London: Pitman Publishing.

King, A. M. (1992): Financial Statements: Revealing Profits GAAP May Conceal, *Business Credit,* 94(9), 10-11.

King Committee on Corporate Governance (1994): *The King Report on Corporate Governance,* South Africa: The Institute of Directors in Southern Africa.

King Committee on Corporate Governance (2002): *The King Report on Corporate Governance for South Africa 2002:* The Institute of Directors in Southern Africa.

KPMG (2001): *Research and Survey Report on Environmental Accounting in South Africa,* Research Report, Cape Town: KPMG Inc. South Africa.

Leedy, P.D. (1989): *Practical Research, Planning and Design*, fifth edition, New York: Macmillan Publishing Company.

Leedy, P.D. & Ormrod, J.E. (2001): *Practical Research: Planning and Design.* New Jersey: Merill Prentice Hall.

Livne, G. & McNichols, M. (2004): *An Empirical Investigation of the True and Fair Override*, Journal of Accounting Research Conference on Financial Reporting and Capital Markets, Chicago, 7-8 May, 1-52.

Loo, R. (2002): The Delphi Method: A Powerful Tool for Strategic Management, *Policing: An International Journal of Police Strategies & Management,* 25(4), 762-769.

Lynch, F. R. (1989): *Invisible Victims: White Males and the Crisis of Affirmative Action*, New York: Greenwood Press.

Mace, M. L. (1976): Designing a Plan for the Ideal Board, *Harvard Business Review,* 54(6), 20 -36.

Marks, S.G. (1999): The Separation of Ownership and Control, *Encyclopedia of Law and Economics,* 5630, 692-724.

Miles, M.B. & Huberman, A.M. (1994): *Qualitative Data Analysis*, second edition, Thousand Oaks: Sage Publications, Inc.

Minkes, A.L., Small, M.W. & Chatterjee, S.R. (1999): Leadership and Business Ethics: Does It Matter? Implications for Management, *Journal of Business Ethics,* 20(4), 327-335.

Myburgh, J. F. (2003): *The Myburgh Report on the Standard of Corporate Governance in the Five Largest Banks*, Johannesburg: South African Reserve Bank.

Naughton, T. (2002): Corporate Governance: An International Perspective, *Professional Lecture Series*, 3, 1-29.

Ngwenya, H. (2002): *Factors that Impede Successful Implementation of Strategy*, Unpublished MBA Research Report, Johannesburg: University of the Witwatersrand.

O'Neil, R. F. & Pienta, D. A. (1994): Economic Criteria Versus Ethical Criteria Toward Resolving a Basic Dilemma in Business, *Journal of Business Ethics,* 13(1), 71-78.

Percy, J.P. (1995): The Cadbury Report and Corporate Governance in the UK, *The CPA Journal,* 65(5), 24-28.

Rhinesmith, S.H. (2001): How Can You Manage Global Paradox?, *The Journal of Corporate Accounting & Finance,* 12(6), 3-9.

Richardson, B. (1995): Paradox management for Crisis Avoidance, *Management Decision,* 33(1), 5-18.

Ross, S., Westerfield, R.W., Jordan, B.D. & Firer, C. (2001): *Fundamentals of Corporate Finance*, second edition, New South Wales: McGraw-Hill Book Company Australia Pty Ltd.

Rowe, G. & Wright, G. (1999): The Delphi Technique as a Forecasting Tool: Issues and Analysis, *International Journal of Forecasting,* 15(4), 353-375.

Scherrer, P. S. (2003): Directors' Responsibilities and Participation in the Strategic Decision Making Process, *Corporate Governance,* 3(1), 86-90.

Schmidt, A.G. (1987): *The Functioning and Effectiveness of Boards of Directors of Selected Quoted Companies*, Unpublished MBA Research Report, Johannesburg: University of the Witwatersrand.

Senge, P. (1990): *The Fifth Discipline: the Art and Practice of the Learning Organisation*, New York: Doubleday Currency.

Sharman, R. & Copnell, T. (2003): Performance from Conformance: The Practical Application of Corporate Governance and Risk Management, *Akauntan Nasional*, 16(4), 20-23.

Sheng, A. (2003): *Opening Address by the Chairman of the Securities and Futures Commission Hong Kong,* The Enterprise Governance Forum 2003, Hong Kong, 26 November, 1-4.

Siebens, H. (2002): Concepts and Working Instruments for Corporate Governance, *Journal of Business Ethics*, 39(1-2), 109-116.

Sillanpää, M. (1998): The Body Shop Values Report – Towards Integrated Stakeholder Auditing, *Journal of Business Ethics,* 17(13), 1443-1456.

Sisk, M. (2004): Dark Side of Emerging Markets? Political Risk, *USBanker New York,* 114(1), 49.

Smith, N. C. (2003): Corporate Social Responsibility: Whether or How?, *California Management Review,* 45(4), 52-76.

Spira, L. F. (2001): Enterprise and Accountability: Striking a Balance, *Management Decision,* 39(9), 739-748.

Stewart, T. A. (1996): The Nine Dilemmas Leaders Face, *Fortune*, 133(5), 112-114.

Story, V., Hurdley, L., Smith, G. & Saker, J. (2001): Methodological and Practical implications of the Delphi Technique in Marketing Decision-Making: A Re-assessment, *The Marketing Review*, 1(4), 487-504.

Sundaramurthy, C. & Lewis, M. (2003): Control and Collaboration: Paradoxes of Governance, *Academy of Management Review,* 28(3), 397-415.

Suter, K. (2003): Can We Reduce Some of the Booms and Busts in Companies?, *Contemporary Review*, 283(1655), 331-336.

Taylor, B. (2003): Board Leadership: Balancing Entrepreneurship and Strategy with Accountability and Control, *Corporate Governance*, 3(2), 3-5.

Templeton, M. P. (2003): Corporate Governance and Shareholder Value, *Text of a Speech by Sir Michael Perry Templeton at Templeton College,* 1-6.

The Business Roundtable (2002): *Principles of Corporate Governance,* Washington: BRT.

Thomas, A. (2002): Employment Equity in South Africa: Lessons from the Global School, *International Journal of Manpower,* 23(3), 237-255.

Tricker, R. I. (1984): *Corporate Governance*, first edition, Vermont: Gower Publishing Company Limited.

University of Cambridge (2002): *Sustainability and Profitability: Conflict or Convergence?*, The 6th Senior Executives' Seminar, Salzburg, 23-27 September, 1-16 .

Vance, C.M., Groves, K.S. & Paik, Y. (2003): Measuring and Building Linear/Nonlinear Thinking Style Balance for Enhanced Performance, *Working Paper*, 1-26.

Wallis, S. (2000): Corporate Governance – Conformance or Performance, *Journal of Banking and Financial Services,* 114(4), 14-19.

Wixley, T. & Everingham G. (2002): *What You Must Know About Corporate Governance*, first edition, Claremont: Siber Ink CC.

Zahra, S. A. (1996): Governance, Ownership, and Corporate Entrepreneurship: The moderating Impact of Industry Technological Opportunities, *Academy of Management Journal,* 39(6), 1713-1735.

Zahra, S. A., Neubaum, D.O. & Huse, M. (2000): Entrepreneurship in Medium-Size Companies: Exploring the Effects of Ownership and Governance Systems, *Journal of Management,* 26(5), 947-976.

APPENDIX A: Letter of Introduction

Hyram Serretta
99 Oudekaap Estates
Dowerglen
1609
Johannesburg

Hyrams@myconnection.co.za
+27 (0)84 329 4455

24 April 2004

Dear [Person],

Participation in a Study of Corporate Governance Dilemmas Facing Boards – MBA Research Report

As briefly discussed with your office, I kindly request your participation in a study on corporate governance dilemmas. As mentioned telephonically, Alec Hogg recommended you as a possible member for the research panel.

The purpose of the study is to identify and explore the core corporate governance dilemmas facing boards. With your participation, it will be possible to investigate these dilemmas in a South African context and provide a clear focus for our business leaders.

The research will comprise of three iterations, taking only a few minutes to complete. Each iteration requires the completion of a short questionnaire and its return via fax or email for analysis. The findings will be presented in subsequent questionnaires for context and further comment. A timeline for the study has been attached for your perusal.

I would like to assure you that your contributions will be anonymous – neither your name nor your company will be linked to any statements made.

As a participant in this study, I would like to offer you a copy of the research findings. If requested, I am also willing to give a presentation of the findings at a suitable forum.

With your permission, the first questionnaire will be sent to you on 24 May 2004.

Thanking you in advance for your consideration.

Sincerely,

Hyram Serretta

STUDY SCHEDULE

Event	Date
Iteration 1 questionnaire sent to you on:	24th May 2004
Iteration 1 questionnaire returned back to me before:	14th June 2004
Iteration 2 questionnaire sent to you with summary of the panel's input from Iteration 1 on:	21st June 2004
Iteration 2 questionnaire returned back to me before:	28th June 2004
Iteration 3 questionnaire sent to you with summary of the panel's input from Iteration 2 on:	5th July 2004
Iteration 3 questionnaire returned back to me before:	19th July 2004

APPENDIX B: Initial Thank You Letter

Hyram Serretta
99 Oudekaap Estates
Dowerglen
1609
Johannesburg

Hyrams@myconnection.co.za
+27 (0)84 329 4455

06 May 2004

Dear [Person],

Confirmation of Your Participation in the Study

Thank you for your willingness to participate in this study. Your insights and opinions will be invaluable.

The first questionnaire will be sent to you on 24 May 2004. Instructions and further information will be included in this questionnaire.

Should you have any queries or require clarification at any stage of the research, please don't hesitate to contact me.

Once again, thank you for your participation and commitment. I look forward to hearing from you soon.

Sincerely,

Hyram Serretta

APPENDIX C: Round One Cover Letters

Hyram Serretta
99 Oudekaap Estates
Dowerglen
1609
Johannesburg

Hyrams@myconnection.co.za
+27 (0)84 329 4455

24 May 2004

Dear [Person],

Receipt of Questionnaire 1 out of 3

Herewith, please find the first questionnaire.

I kindly request that you complete the questionnaire and return it to me before 14th June 2004 by email or fax.

Should you have any queries or require clarification at any stage of the study, please don't hesitate to contact me.

Thanking you in advance for your participation.

Sincerely,

Hyram Serretta

Hyram Serretta
99 Oudekaap Estates
Dowerglen
1609
Johannesburg

Hyrams@myconnection.co.za
+27 (0)84 329 4455

11 June 2004

Dear [Person],

Receipt of Completed Questionnaire 1 out of 3

I have received your completed questionnaire for round 1 of the study. Thank you for your contribution.

The analysis of this iteration on the inputs from all participants will be sent to you within the second questionnaire on 21st June 2004.

Sincerely,

Hyram Serretta

APPENDIX D: Round Two Cover Letters

Hyram Serretta
99 Oudekaap Estates
Dowerglen
1609
Johannesburg

Hyrams@myconnection.co.za
+27 (0)84 329 4455

21 June 2004

Dear [Person],

Receipt of Questionnaire 2 out of 3

Herewith, please find the second questionnaire. The summarized results of the first iteration of the study have been included in this questionnaire.

I kindly request that you complete the second questionnaire. Please return it to me before 28th June 2004 by email or fax.

Should you have any queries or require clarification at any stage of the study, please don't hesitate to contact me.

Thanking you in advance for your participation.

Sincerely,

Hyram Serretta

Hyram Serretta
99 Oudekaap Estates
Dowerglen
1609
Johannesburg

Hyrams@myconnection.co.za
+27 (0)84 329 4455

28 June 2004

Dear [Person],

Receipt of Completed Questionnaire 2 out of 3

I have received your completed questionnaire for round 2 of the study. Thank you for your contribution.

The analysis of this iteration on the inputs from all participants will be sent to you within the third and final questionnaire on 5th July 2004.

Sincerely,

Hyram Serretta

APPENDIX E: Round Three Cover Letters

Hyram Serretta
99 Oudekaap Estates
Dowerglen
1609
Johannesburg

Hyrams@myconnection.co.za
+27 (0)84 329 4455

5 July 2004

Dear [Person],

Receipt of Questionnaire 3 out of 3

Herewith, please find the third and final questionnaire.

I kindly request that you complete the questionnaire and return it to me before 19th July 2004 by email or fax.

Should you have any queries or require clarification at any stage of the study, please don't hesitate to contact me.

Thanking you in advance for your participation.

Sincerely,

Hyram Serretta

Hyram Serretta
99 Oudekaap Estates
Doweglen
1609
Johannesburg

Hyrams@myconnection.co.za
+27 (0)84 329 4455

19 July 2004

Dear [Person],

Receipt of Completed Questionnaire 3 out of 3

I have received your completed questionnaire for round 3 of the study. Thank you very much for your participation in the study.

As a participant in this study, I would like to offer you a copy of the research findings on completion and acceptance of the research by Wits Business School. If requested, I am also willing to give a presentation of the results at a suitable forum. Kindly advise accordingly?

Sincerely,

Hyram Serretta

APPENDIX F: Questionnaire Round One

MBA RESEARCH REPORT

Student: Hyram Serretta

Topic: Core Corporate Governance Dilemmas Facing Boards

Research Questionnaire – First Iteration of Three

Instructions: The purpose of this iteration is to identify the core corporate governance dilemmas facing boards. Please answer the three questions and return this questionnaire to the researcher before [DATE].

Definitions:

Dilemma: Typically, dilemmas are defined as two extreme options, elements or propositions that are opposite to each other and imply conflicting gains. A middle ground, a balance or trade-off must be achieved between these options, elements or propositions.

Examples of a Dilemma:

A human must hold a balance between being asleep and being awake, for the purpose of staying alive. To only sleep means to not live. To only live means not to sleep, which ultimately leads to death. A balance between these two opposing points must be maintained, thereby reflecting a dilemma.

As a second example, leaders often have to strike a balance among conflicting goals (Stewart, 1996). For example, all entrepreneurial leaders are encouraged to think freely but they must still make budget and adhere to company policy.

Another example is busting bureaucracy vs. economies of scale (Stewart, 1996). Some functions like purchasing are centralised for better prices. Leaders are then also encouraged to destroy costly bureaucracies that clog corporate arteries when they are forced to purchase equipment that does not fit the needs of their business units.

Question 1

Please list the most pertinent problems and opportunities currently facing boards of directors.

Question 2

Which of these problems and opportunities reflect the core/central/main corporate governance dilemmas facing boards?

Side 1 of Dilemma 1	Side 2 of Dilemma 1
e.g. Sleep *e.g. Busting bureaucracy*	*e.g. Staying awake* *e.g. Economies of scale*
Side 1 of Dilemma 2	**Side 2 of Dilemma 2**
Side 1 of Dilemma 3	**Side 2 of Dilemma 3**
Side 1 of Dilemma 4	**Side 2 of Dilemma 4**
Side 1 of Dilemma 5	**Side 2 of Dilemma 5**

Should you identify more than five dilemmas, please continue to add to this list (electronically) or indicate them on a separate page (hard copy).

Question 3

Please provide a brief explanation for why you would consider each of the identified issues to be dilemmas.

Dilemma 1	Explanation
Dilemma 2	**Explanation**
Dilemma 3	**Explanation**
Dilemma 4	**Explanation**
Dilemma 5	**Explanation**

Should you need to explain more than five dilemmas, please continue to add to this list (electronically) or indicate them on a separate page (hard copy).

Thank you for your participation. Kindly return your questionnaire to the researcher before [DATE]. The analysed results/summary of the panel's views in this iteration will be sent to you on [DATE] for further comment in the next iteration.

Hyram Serretta

Tel: 011 350 3440 Cell: 084 329 4455

Fax: 011 350 2123 Email: hyrams@myconnection.co.za

APPENDIX G: Questionnaire Round Two

MBA RESEARCH REPORT

Student: **Hyram Serretta**

Topic: Core Corporate Governance Dilemmas Facing Boards

Research Questionnaire – Second Iteration of Three

Instructions: The purpose of this iteration is to corroborate the core corporate governance dilemmas facing boards that were identified by the panel and summarised in the first iteration. Please answer the two questions and return this questionnaire to the researcher before [DATE]. Should you have no further comments to make in this iteration, please return the questionnaire to the researcher for administrative purposes.

Definitions:

Dilemma: Typically, dilemmas are defined as two extreme options, elements or propositions that are opposite to each other and imply conflicting gains. A middle ground, a balance or trade-off must be achieved between these options, elements or propositions.

Question 1

Please indicate (with a tick (√**)**) and explain which of the 13 dilemmas you believe are **NOT** core corporate governance dilemmas facing boards. Alternatively simply place a tick (√) in the "**Is**" column. No explanation is then required. This list reflects a consensus summary of opinions of the panel in the first iteration.

Dilemma 1	Is	Not
The board is tasked with holding a balance between *performance* (enterprise and financial success) and *conformance* (prudent control). As an example, this includes circumventing potential misrepresentation of results due to new rules-based standards whilst complying.		
Explanation if NOT:		

Dilemma 2	Is	Not
The board is tasked with holding a balance between *attractive remuneration* for directors to acquire and retain talent and *prudent cost control*.		
Explanation if NOT:		

Dilemma 3	Is	Not
The board is tasked with holding a balance between *addressing social charter* and *BEE priorities* and being focused on the *commercial needs* of the business.		
Explanation if NOT:		

Dilemma 4	Is	Not
The board must be mindful of *short-term local demands* (e.g. risk management, control, and overseeing performance) whilst being able to balance these against broader *long-term, national* and *international trends* and *competition* (strategic thinking).		
Explanation if NOT:		

Dilemma 5	**Is**	**Not**
The board must possess *sufficient knowledge* of the *day-to-day workings* of the business to be responsible for its actions whilst being able to find time to develop a *longer-term objective/independent 'helicopter'* view of the business and developments outside (*policy formulation*).		
Explanation if NOT:		

Dilemma 6	**Is**	**Not**
The board is required to focus on the business' *commercial needs* whilst operating *responsibly and ethically* to *all shareholders* and *stakeholders*.		
Explanation if NOT:		

Dilemma 7	**Is**	**Not**
The board must hold a balance between *high risk* and *high reward* and *more certain, consistent performance* and *earnings growth*.		
Explanation if NOT:		

Dilemma 8	**Is**	**Not**
The board is tasked with holding a balance between seizing major growth opportunities in *emerging markets* and protecting *profitable existing business*.		
Explanation if NOT:		

Dilemma 9	Is	Not
The board is tasked with holding a balance between addressing the skills shortage and *actively training future board members* for the long-term (expensive) and *hiring skilled* people who have received their training elsewhere.		
Explanation if NOT:		

Dilemma 10	Is	Not
The board is tasked with holding a balance between addressing *board succession* for diversity, complimentary skills and independence and keeping the *current set* of very competent and successful directors.		
Explanation if NOT:		

Dilemma 11	Is	Not
The board must hold a balance between *incurring shareholder activism* as a result of *lower profit* levels and *incurring increased wage demands, calls for price reductions and complacency* as a result of *exceptionally high profit* levels.		
Explanation if NOT:		

Dilemma 12	Is	Not
Boards of multi-nationals must hold a balance between setting *executive remuneration* at *international levels* to retain talent and keeping executive remuneration at *national levels* to satisfy the media and investors.		
Explanation if NOT:		

Dilemma 13	Is	Not
The board must hold a balance between providing careers for previously disadvantaged employees (*employment equity*) and *established competence*.		
Explanation if NOT:		

Question 2

If you believe that the list of dilemmas above is incomplete, please provide additional dilemmas if deemed necessary and detail the reason for your inclusion i.e. Why is your inclusion a dilemma?

Thank you for your participation. Kindly return your questionnaire to the researcher before [DATE]. The analysed results/summary of the panel's views in this iteration will be sent to you on [DATE] for further comment in the next and final iteration.

Hyram Serretta

Tel: 011 350 3440 Cell: 084 329 4455

Fax: 011 350 2123 Email: hyrams@myconnection.co.za

APPENDIX H: Questionnaire Round Three

MBA RESEARCH REPORT

Student: Hyram Serretta

Topic: Core Corporate Governance Dilemmas Facing Boards

Research Questionnaire – Third Iteration of Three

Instructions: The purpose of this iteration is to rate the core corporate governance dilemmas facing boards on an importance scale and to formulate possible suggestions to cope with the 6 dilemmas. **The dilemmas were based on an analysis of your submissions from previous rounds**. Please answer the questions and return this questionnaire to the researcher before [DATE].

Definitions:

Dilemma: Typically, dilemmas are defined as two extreme options, elements or propositions that are opposite to each other and imply conflicting gains. A middle ground, a balance or trade-off must be achieved between these options, elements or propositions. The definition of a dilemma for the purpose of this study includes the fact that both propositions are not mutually exclusive and must be addressed simultaneously through a balance.

Question 1

Based on the analysis of your submissions from previous rounds, there are *6* dilemmas that consistently appeared (outlined below):

Dilemma 1	
The board is tasked with holding a balance between *performance* (entrepreneurship, risk-taking and financial success) and *conformance* (prudent control). This is manifested in the way of:	
Performance	**Conformance**
Being focused on the commercial needs of the business.	Addressing social charter and BEE priorities in the form of government regulation.
High risk and high reward.	More certain, consistent performance and earnings growth.
Seizing major growth opportunities in emerging markets	Protecting profitable existing business.
Keeping established competence.	Providing careers for previously disadvantaged employees (employment equity regulations)
Please rate the dilemma on an importance scale of 1 to 10, where **1** is **'of little concern'** and **10** is **'most prominent'**. Please do not use fractions or decimals. Only use whole numbers.	
What do you believe would be best practice for coping with the challenges of this dilemma?	

Dilemma 2	
The board is required to focus on the business' *commercial needs* whilst operating *responsibly to all stakeholders* in society (customers, suppliers and society) and in the business (employees and business partners). This is manifested in the way of:	
Commercial Needs (for Shareholders)	**Responsibility to all Stakeholders**
Prudent cost control.	Attractive remuneration for directors to acquire and retain talent.
Being focused on the commercial needs of the business.	Addressing social charter and BEE priorities.
Keeping executive remuneration at national levels to satisfy the media, investors and shareholders.	Setting executive remuneration at international levels to retain talent.
Maintaining established competence.	Providing careers for previously disadvantaged employees (employment equity).
Economic goals.	Social goals.
Economic goals.	Managing the potential impact of HIV/AIDS in the workplace.
Please rate the dilemma on an importance scale of 1 to 10, where **1** is **'of little concern'** and **10** is **'most prominent'**. Please do not use fractions or decimals. Only use whole numbers.	

What do you believe would be best practice for coping with the challenges of this dilemma?

Dilemma 3	
The board must be mindful of *short-term local demands* (e.g. risk management, control, and overseeing performance) whilst being able to balance these against broader *long-term, national* and *international trends* and *competition* (strategic thinking). This is manifested in the way of:	
Short-term Local Demands	**Broader Long-term trends and Competition**
Organisational efficiency in the form of short-term internal supervision and control of management.	Organisational effectiveness in the form of long-term strategic thinking (resource allocation and processes to implement strategy) respectively.
Maintaining short-term earnings targets and smooth earnings.	Long-term sustainability and setting of corporate direction of the business.
Please rate the dilemma on an importance scale of 1 to 10, where **1** is **'of little concern'** and **10** is **'most prominent'**. Please do not use fractions or decimals. Only use whole numbers.	
What do you believe would be best practice for coping with the challenges of this dilemma?	

Dilemma 4	
The board must possess *sufficient knowledge* of the *day-to-day workings* of the business to be responsible for its actions whilst being able to find time to develop a *longer-term objective/independent 'helicopter'* view of the business and developments outside (*policy formulation*). This is manifested in the way of:	
Sufficient Knowledge of Day-to-Day Workings	**Long-term Independent/Objective Helicopter View**
Having sufficient time to build knowledge through an "inward-looking" perspective.	Having sufficient time to build knowledge through an "outward-looking" perspective.
Having in-depth knowledge of and intimacy with the affairs of the corporation for accountability.	Being independent.
The need to know the detailed workings of the company.	The need to be aware of the socio-emotional aspects of the company (purpose, vision, values, emotional climate and culture) to set corporate policy and to position the company in all applicable political environments (including social, economic and trade aspects).
Please rate the dilemma on an importance scale of 1 to 10, where **1** is **'of little concern'** and **10** is **'most prominent'**. Please do not use fractions or decimals. Only use whole numbers.	

What do you believe would be best practice for coping with the challenges of this dilemma?

Dilemma 5	
The board is tasked with holding a balance between addressing board succession for *diversity, complimentary skills* and *independence* and keeping the current set of very competent and successful directors for *continuity*. This is manifested in the way of:	
Diversity and Complimentary Skills	**Continuity**
Fostering independence and objectivity of the board, which is important for international investors and institutional credibility.	Keeping competent and successful directors for performance and continuity.
Blindly complying with King II in a small economy lacking in diversity of experience and independence.	Keeping competent and successful directors for performance and risking a heavier workload, additional risks and negative judgement by the market.
Please rate the dilemma on an importance scale of 1 to 10, where **1** is **'of little concern'** and **10** is **'most prominent'**. Please do not use fractions or decimals. Only use whole numbers.	
What do you believe would be best practice for coping with the challenges of this dilemma?	

Dilemma 6	
The board must hold a balance between *incurring shareholder activism* and *failure to source further funding* as a result of lower profit levels and *incurring increased wage demands, calls for price reductions* and *complacency* as a result of exceptionally high profit levels. This is manifested in the way of:	
Shareholder Activism and Failure to Source Funding	**Increased Wage Demands, Calls for Price Reductions and Complacency**
Mitigating/protecting reputational risk in light of shareholders.	Mitigating/protecting reputational risk in light of all other stakeholders.
Please rate the dilemma on an importance scale of 1 to 10, where **1** is **'of little concern'** and **10** is **'most prominent'**. Please do not use fractions or decimals. Only use whole numbers.	
What do you believe would be best practice for coping with the challenges of this dilemma?	

Thank you for your participation. Kindly return your questionnaire to the researcher before [DATE].

Hyram Serretta

Tel: 011 350 3440 Cell: 084 329 4455

Fax: 011 350 2123 Email: hyrams@myconnection.co.za