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BEST PRACTICES OF BOARDS OF DIRECTORS OF JSE LISTED COMPANIES IN THE ICT SECTOR IN SOUTH AFRICA

Rita Sikhondze

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

Johannesburg, October 2010

ABSTRACT

The purpose of the research was to determine the best practices needed by Boards of Directors of JSE listed companies in the Information and Communication Technology (ICT) sector in South Africa. The best practices were solicited with the aim of assisting Boards of Directors in ICT listed companies in South Africa to ensure that their Boards function effectively and optimally. In the process of conducting this research, best practices of Boards of Directors in the ICT listed companies were identified.

An academic literature review was compiled with the aim of exploring existing academic literature and applying it to the main research problem that was being investigated. The literature review established a number of best practices needed by Boards of Directors in ICT listed companies. These best practices included, but were not limited to: the importance of good corporate governance, Boards of Directors having clear guidelines on their roles and responsibilities, CEO and Chairman duality, Board composition, Board size, efficient Board processes, presence of Board committees, the relationship between management and the Board, Board diversity and Board recruitment programmes.

The research employed an interpretive analysis as part of the qualitative methodology. 14 in-depth interviews were completed with Boards of Directors in ICT listed companies. Interviews were transcribed and content analysis was performed in order to generate recurring themes.

The research was able to establish and validate a number of propositions formulated in the literature review. The validated propositions included the following:

- Effective Boards of Directors have clarity of their roles and responsibilities on the Board
- Best practice dictates that there should be separation of CEO and Chairman duality

- Boards should comprise a majority of non-executive directors as it ensures effectiveness and accountability
- Small Boards are advisable as there are easier to manage and they function more effectively than larger Boards
- Efficient Board processes and constructive conflict on the Board facilitate a climate of productive director participation
- Best practice in corporate governance dictates that Boards should have specialized committees on the Board
- In order to optimize Board effectiveness, it is important that there exist Board recruitment and development programmes
- A strong, positive relationship between the Board and management will ensure that the Board functions effectively
- Diversity is important for all Boards for improved effectiveness

The key message is that it is in the best interest of ICT listed companies to adopt and conform to the best practices identified in this research as this will ensure Board effectiveness, and sustainable growth and performance.

DECLARATION

I, Rita Sikhondze, declare that this research report is my own work except as indicated in the references and acknowledgements. 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.

…….
Rita Sikhondze

Signed at ……

On the …….. day of …… 2010

DEDICATION

TO MY HUSBAND AND DAUGHTER: SIBONISO AND SETSABILE MKHABELA AND MY PARENTS: PHETSANI AND MACLEAN SIKHONDZE.

ACKNOWLEDGEMENTS

I would like to express my sincere thanks and gratitude to:

- My supervisor, Mark Peters, for his continued encouragement and invaluable guidance throughout the research process
- My family, in particular my husband and daughter for the continued support throughout the MBA. I would also like to thank my parents and sisters for their unwavering support
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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to determine the best practices needed by a Board of Directors of JSE listed companies in the Information and Communication Technology (ICT) sector in order for them to function optimally.

The report established the best practices that should be adopted by a Board of Directors in the ICT sector as a benchmark of corporate governance. In addition, the research intended to provide a framework to help Board of Directors to be more effective in running boards in the ICT sector. The best practices can be used as a tool for evaluating what the Board does, and how it does it. The best practices are also useful in the selection, induction, training and development of Board of Directors. Furthermore, the best practices can be considered as a toolkit for Board of Directors in the ICT sector.

1.2 Context of the study

Board effectiveness is increasingly becoming a topical issue. To that end, best practices in the form of Board inputs, structures and processes have a major influence on Board effectiveness. A number of process variables and best practices have to be in place in order to achieve Board effectiveness. These variables include but are not limited to: Board members having the time, skills and experience to do the job; clear delineation of Board roles and responsibilities; the ability for Board of Directors and management to share a common vision of how to achieve their goals; and a periodical review of how the Board and management work together (Conforth 2001).

Coombes and Watson (2002) identified an effective Board of Directors as one that involves a combination of the right people, appropriate structure

and the right processes. Finkelstein and Mooney (2003) in their study found that:

> "…board process likely has a very real and important impact on overall board effectiveness and even firm performance. Board members readily acknowledge the centrality of process when asked how boards really operate. They see process issues as central not just to how they function as a group but to their ability to act independently of the CEO." (Finkelstein and Mooney 2003: 13)

Against this backdrop, a Board of Directors in the current business environment faces a unique set of responsibilities and challenges (OECD 2008). Henceforth, in order to fulfil this complex role and to ensure board effectiveness, a Board of Directors needs to be equipped in certain areas of knowledge and personal characteristics including best practices, which was largely the aim of this research.

> "It is board effectiveness not board structure that must be analyzed, for it is effectiveness of the board in the decision-making process that in the final analyses determines corporate performance." (Leblanc and Gillies 2003: 4)

Corporations work within a governance framework. The framework is normally set by a country's laws and by a corporations' constitution. In effect:

> "The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders." (OECD 2008: 16)

In the South African context, listed firms are expected to adhere to certain codes and regulations as purported by the King Reports on Corporate Governance. In order to conform and adhere to international standards, South Africa published the King Report on Corporate Governance (hereafter referred to as King I) in 1994 as a means to promote corporate governance. This was then followed by an updated version in 2002

(hereafter referred to as King II) which was meant to help Boards of Directors to adhere to a changing legislative environment.

In effect, the complexity of today's large companies including the ones in the ICT sector demands that Board of Directors are in possession of certain attributes and best practices in order to understand the intricacies of their role. This is due in part to the fact that:

> "During this time of rapid change in the commercial, economic and legislative environments internationally, the need to address the extent to which such evaluations contribute to board effectiveness is significant." (Van der Walt and Ingly 2001: 331)

In order to remain relevant in the global business landscape, South Africa launched the King III Report (hereafter referred to as King III) in September 2009). King III (2009) became necessary because of the anticipated Companies Act including the evolving international trends.

> "The new Companies Act codifies the standard for directors' conduct and regulates the liability of directors where the standard is not met. Directors are obliged to act in good faith, in the best interest of the company and with the required level of skill and diligence… In contrast, there is no statutory obligation on companies to comply with King III. The underlying intention of King III is not to force companies to comply with recommended practice (King II required companies to 'comply or explain'), but rather for companies to 'apply or explain'. …As directors can be held personally liable for non-compliance with their statutory duties as set out in the Companies Act, they need to ensure that each and every decision is taken with care." (Deloitte 2009: 1)

King III (2009) has further broadened the scope of corporate governance for South African Boards of Directors with emphasis on leadership, sustainability and corporate citizenship. The King III (2009) report has identified principles for corporate governance for listed companies. The

principles cover but are not limited to: 1) the fact that good governance is essentially about effective leadership. Boards of Directors need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour with regard to sustainable performance; and 2) Sustainability is now the primary moral and economic imperative and is one of the most important sources of both opportunities and risks for businesses.

However, as much as the King Reports have identified codes and best practices for corporate governance, this is not enough. Companies may find it easy to comply with stipulated codes such as those purported by the King Reports, but that does not mean that companies are well governed. **These are merely minimum requirements** (Bradley 2004). This, therefore, warrants the need to further identify best practices that ensure optimal functioning of Boards of Directors.

The impact of failures and weaknesses in corporate governance due to the recent financial crisis (Kirkpatrick 2009) and the high profile collapses of major global businesses such as Enron, Tyco, Adelphia and WorldCom (Sonnenfeld 2002) have increased the need for Board accountability and shareholder responsibility. In essence:

> "Understanding the nature of effective board functioning is amongst the most important areas of management research on the horizon." (Forbes and Milliken 1999:502)

The context of this research therefore encompassed setting a number of best practices needed for Boards of Directors to meet the increasing demand of stakeholders wanting to see a demonstration of effectiveness in the Boards they serve. In addition, pressures for Board of Directors' competencies have been prevalent in the listings of directors' stock exchanges such as the JSE.

Given the increasing dynamics of the global economy, it is important that Boards of Directors in the ICT sector are well positioned to assist their respective organizations to adapt to an increasingly changing political,

social, economic and regulatory environment.

1.3 Problem statement

1.1.1Main problem

Determine the best practices of an effective Board of Directors in the ICT sector of JSE listed companies in South Africa.

1.4 Significance of the study

Boards of Directors are meant to be the focal point of corporate governance and are expected to provide the overall leadership of an organization. Henceforth, “the need for a better understanding of all elements that determine board effectiveness” (Van Den Berghe and Levrau 2004:461) is paramount for competitive advantage.

From an investor’s perspective, it appears that issues of corporate governance have taken centre stage, among other issues. According to Coombes and Wong (2004) in a McKinsey and Company survey:

- At least 80% of investors are willing to pay a premium for well governed companies;
- Governance has major influence on investors’ decision making;
- More importantly, around 60% of investors do not invest in corporations that do not demonstrate sound governance principles

In addition, the Commbes and Wong survey (2004) identified best practices such as increased focus on Board professionalism and more intensive scrutiny of governance as important contributors to Board effectiveness. Hence, the significance of this research.

In light of corporate failures and the recent financial crisis, Boards of Directors are under enormous pressure and attention:

> "There has been chronic loss of trust in the world's systems and institutions. Company boards must vanguard of the effort to win back the confidence of customers and investors alike. A well-balanced board is central to the effective strategic direction and running of any company. Good governance and leadership will help rebuild confidence in our business systems, providing a stable framework for sustainable growth." (Heidrick and Stuggles 2009:3)

In that sense, the research was significant in that it identified the best practices required by Boards of Directors that sit on listed ICT companies in order for them to gain and maintain a competitive advantage in an increasingly competitive global market. In addition, the rationale behind this research and its significance, specifically its focus on the ICT sector, was that the ICT sector is not a well documented sector. The research therefore enhanced the body of knowledge in existing Board of Directors literature. Finally, the study set out a number of recommendations to be used by Boards of Directors in the ICT sector that are looking to increase and maintain Board effectiveness, and meet stakeholder expectations.

1.5 Delimitations of the study

The research focused on JSE listed companies in the ICT sector. The research did not include Alternative Exchange companies and non-listed companies.

Given the nature of the study in terms of understanding Board activity, the researcher foresaw a challenge in obtaining objective responses from Boards of Directors who were approached. A convenience sample of 14 South African Boards of Directors of ICT companies listed on the JSE perceived to be experts in Board processes were identified, contacted and interviewed.

1.6 Assumptions

The following were the underlying assumptions when the research was conducted:

- The respondents that were selected were be conversant enough about the King reports and their perceptions on best practices of a Board of Directors
- The identified individuals were willing to share information objectively and honestly where Board effectiveness is concerned
- The respondents' views were be representative of the industry in which they operate
- Compliance with all the King reports did not necessarily mean that companies were well governed nor effective Boards of Directors
- There was an expectation that some of the best practices purported by respondents only applied to the South Africa business environment

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The literature review chapter focuses on the key themes of relevance to the study by identifying the best practices that make Boards of Directors effective. The literature review provides a background discussion. This will be achieved by giving an overview of the importance of corporate governance. A theoretical review on agency theory is then explored.

Functions of the Board and Corporate Governance Mechanisms are addressed in this section. In addition, the literature review also discusses other relevant themes as they relate to best practices of an effective Boards of Directors such as the relationship between Boards and Management, Board Diversity and Board Development. The chapter also looks at Board best practices in the ICT sector. The chapter concludes with an overview of key learnings based on the literature review.

2.2 Background discussion: The Importance of Corporate Governance

Corporate governance, and in particular the role of Boards of directors, has been become a topical issue in recent years. The way in which Boards of Directors perform has become a concern in many parts of the world. This is largely attributed to the numerous corporate scandals that have taken place such as Worldcom and Parmalat.

As a result of these scandals and mounting concern about corporate governance, Boards of Directors and their effectiveness have been at the centre of policy debate and academic research where corporate governance reform is concerned (Adams, Hermalin and Weisbach 2009). Henceforth, the perceived problematic nature of corporate governance

has resulted in growing literature on Board effectiveness (Conforth 2001). Thus, corporate governance has increasingly become a very important phenomenon in a radically changing globalized world (Rosenstein and Wyatt 1997).

Good governance ensures the effective performance and sustainable value of companies. According to Klapper and Love (2004), good corporate governance is highly correlated to operating performance and market valuation. In effect, this will protect and enhance shareholder and stakeholder value. Good corporate governance is rewarding to those companies that effectively practice it and investors are willing to pay a premium for good governance.

> "In theory, [good governance] should increase the market valuation of companies by improving their financial performance, reducing the risk that boards will make self-serving decisions, and generally raising investor confidence. Indeed, surveys suggest that institutional investors will pay as much as 28 percent more for the shares of well governed companies in emerging markets" (Newell and Wilson 2002: 20).

Newell & Wilson (2002) further suggested that a number of factors contribute to good corporate governance. These factors include but are not limited to transparent ownership, Board size and broad, timely, and accurate disclosure. The study conducted by Newell & Wilson (2002) under the auspices of Mckinsey and Company discovered that:

- Companies in emerging markets namely: India, Malaysia, Mexico, South Korea, Taiwan and Turkey which were tested against the link between market valuation and corporate governance practices, expected a 10 to 12 percent increase in market valuation due to their corporate governance characteristics
- Improving corporate governance could be a strategy for outperforming competitors in financial markets

- Essentially, investors are looking for high standards of corporate governance and they are willing to pay high premium in companies that adhere to them

- Therefore, best practices of good corporate governance are crucial to the value of companies

In light of the above, Boards of Directors are finding it more challenging to determine the best decisions for their companies and stakeholders. Henceforth, identifying Board of Directors best practices which are associated with Board effectiveness is crucial. To that end, a study on conducted by Dulewicz, MacMillan and Herbert (1995) on UK Corporate Boards found that Boards of Directors who wish to enhance their effectiveness need to consider three areas:

- Organizational processes for managing the Board

- Competencies of Boards of Directors and tasks that need to be performed

- The processes required for organizing and running a Board effectively

The practice of good corporate governance is therefore crucial as it ensures investor confidence and enhances company performance and accountability. However, it appears that:

> "In many companies no one is focusing on the competence of the board or the effectiveness of its members; yet at the same time, a growing burden of legal duties and responsibilities is being placed on the shoulders of directors" (Coulson-Thomas 1994: 29)

In effect, the best practices needed by Board of Directors are never made explicit. Hence, identifying the best practices that will ensure effectiveness of Boards of Directors is imperative.

Proposition 1: Good practice in corporate governance is essential in

building shareholder and investor confidence.

2.3 Agency Theory in Corporate Governance

There is limited organization and management literature available on the theoretical nature of corporate governance. Most of the research that has been done in this area has mainly focused on the Board's external role rather than its internal governing role. However, outside organization and management literature, corporate governance has been studied in agency theory (Kosnik 1987).

Agency theory forms the basis of theoretical background for corporate governance. Agency theory has had a major impact in reforming corporate governance best practices. The theory can be defined as the relationship between management and shareholders.

> "As applied to corporate governance, it is the shareholder who is cast as the 'principal' and the problem, following the separation of ownership and control, is how the principal can ensure that his 'agents'-company directors-serve the shareholders interests rather than their own" (Roberts 2004: 2)

Also inherent in the agency theory is the importance of ensuring that the agents' behaviour is conditioned by incentive structures which are incorporated in the contract (Kosnik 1987).

Agency problems arise when managers (agents) may not act in the best interest of the company or its shareholders especially in cases where control of the company is separate from its ownership and the agents do not feel that they own an equity stake in the business (Bonazzi and Islam 2007). Boards of Directors are there to solve some of the agency problems inherent on managing an organization (Hermalin and Weisbach 2003).

Henceforth, agency theorists have focused their research on identifying optimal mechanisms that will ensure attaining the best interests of

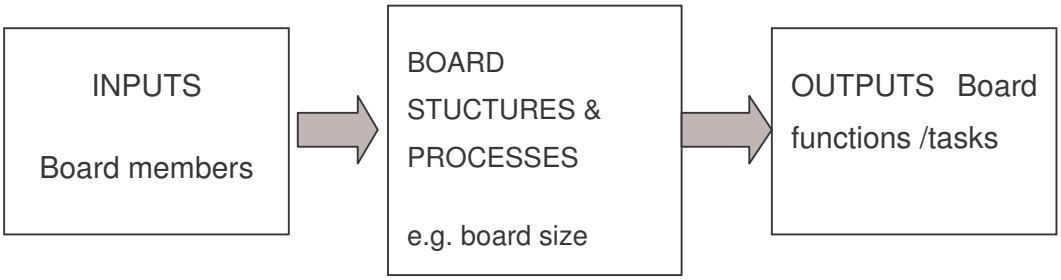
shareholders. Against this backdrop, agency theorists have identified a Board of Directors as one of the best alternatives to monitor and control management and to avoid agency problems (Kosnik 1987).

2.4 Conceptual Framework

In order to fully appreciate the best practices of an effective Board of Directors, a conceptual framework would assist in bringing clarity on Board effectiveness and the factors that influence it (Cornforth 2001). The input-output framework below is a based on a study on Standards of Good Practice for UK Boards of Directors conducted by Dulewicz, MacMillan and Herbert (1995).

Nicholson and Kiel (2004) argue that in order to have an appreciation of the best practices needed for Board effectiveness; one would have to have a conceptual framework:

> "Understanding how these factors interact requires a range of tools. The conceptual framework or model is a key tool, because it indicates which factors (in the board, for example) are central to the topic of interest. A framework also highlights how these factors are related to one another or which factors (or combination of factors) will cause changes to others. Thus, developing an understanding of how boards work requires a holistic framework to guide investigations. Models of how boards work are central to corporate governance research" (Nicholson and Kiel 2004: 4).



** Source (Conforth 2001)*

Figure 1: Conceptual Framework Diagram

As illustrated by Figure 1, the inputs are time, skills and experience of Board of Directors which are transformed into outputs through the board's structures and processes. Outputs include strategy and policy formulation, stewardship Board maintenance, among others (Cornforth 2001).

2.5 The Role of the Board of Directors

The role of a Board of Directors is vital in regulating corporate activities. More often than not, Board of Directors are relegated to making decisions which pertain to the hiring and firing of CEOs, setting strategy and selection of projects (Hermalin and Weisbach 2003).

> "On an ongoing basis, boards have to ratify many decisions put to them by the CEO. These decisions focus on three broad topics-running today and reporting performance, building tomorrow, and dealing with regulators, investors and other stakeholder groups" (Dowling 2006: 60)

Mace (1986) attests that the role of a Board of Directors is to serve as a sounding board for the CEO and management and to occasionally provide expertise when needed. The role of a Board of Directors has continued to evolve over time. MacAvoy and Millstein (1999) in their statistical study found that Board of Directors were now active and independent monitors as opposed to being managerial rubber-stamps.

In addition, Wan and Ong (2005) continue to assert that Boards of Directors have increasingly become accountable for the companies they lead, with some recent instances of Boards of Directors ending up in court and found personally liable for huge amounts of money.

In the context of the South African business environment, King III (2009) has identified roles and functions of a Board of Directors:

- The Board is a focal point for corporate governance
- The Board needs ensure that the company is a good corporate citizen
- Boards of Directors needs to cultivate an ethical corporate culture
- The Board of Directors needs should manage strategy, risk performance and sustainability as inseparable matters
- Boards of Directors should consider sustainability as a business opportunity
- Boards of Directors should act in the best interests of the company in which they serve
- Boards of Directors should effectively manage conflicts of interest
- Effectiveness of internal financial controls should form part of a Boards of Directors responsibility
- Boards of Directors are responsible for dispute resolution and effective compliance
- Boards of Directors need to ensure that rescue proceedings are instituted as soon as the financially distressed nature of the company becomes evident

According to Garret (1996), the main functions of the Board of Directors includes selecting and monitoring of the CEO, developing strategy, setting the organization's mission, approving policies and budgets and ensuring

that the company has adequate resources to perform its duties. In fact,

> "Much of the research on Boards ultimately touches on the question "what is the role of the Board?" Possible answers range from Boards' being simply legal necessities, something akin to wearing wigs in English courts, to their playing an active part in the overall management and control of the corporation. No doubt the truth lies somewhere between these extremes; indeed, there are probably multiple truths when this question is asked of different firms, in different countries, or in different periods" (Adams, Hermalin and Weisbach 2009: 1).

Kula (2005) identified the role of a Board of Directors as the most important and frequently used supervisory mechanism for management actions. Boards of Directors therefore play a pivotal role in maintaining an effective organization. The effectiveness of a Board of Directors is dependant "on the competency of the board to carry out its functions." (McGregor 2000: 175).

Proposition 2: Boards of Directors have a clearly defined understanding of their roles and functions.

2.6 Corporate Governance Mechanisms

2.6.1 CEO and Board Chairman Duality: Separation of Roles

The term duality refers to a Board structure where the CEO of a company also acts as the Chairman of the Board (Fahlenbrach 2009). The duality of CEO and Chairman of the Boards holds true in a number of firms (Rechner and Dalton 1991).

This structure has not been widely supported as it is viewed as transferring too much power in the hands of the CEO (Jensen 1993). This is seen as reducing the Board's ability to influence decisions and the fulfilment of governance duties. Core, Holthausen and Larcker (1999) further point out that when CEO and Board duality is in place, the

likelihood of agency problems is increased.

On the other hand, the proponents of CEO and Board Chairman duality (Brickley, Coles and Jarrell 1997 and Adams et al 2009) argue that combining or separating titles does not have a direct impact on Board effectiveness nor on a company's performance. Furthermore, Dalton and Dalton (2005) found that there is no consistent research which demonstrates a link between CEO and Chairman duality to financial performance and therefore is not a need for duality independence.

Although, separation of the CEO and Chairman role can create structural independence. It is argued that:

> "Even if it is true that combining the titles of CEO and Chairman means that an individual has, on average more influence over his firm, it does not follow that mandating separate titles would improve corporate performance …measures of CEO power are not systematically related to firm performance" (Adams et al 2009: 27).

A Heidrick and Struggles (2009) study which presented findings of 768 directors at 660 of the 2000 largest publicly listed traded companies in the United States of America (USA), found that 30% of the Boards have a non-executive Chairman. This was a significant increase from 2003 where 16% of the firms had a non-executive Chairman.

In light of the above divergent views, the South African King III (2009) report states that the Chairman of a Board should be an independent non-executive director. This implies that the roles of both the CEO and Chairman should be separated. Dalton et al (2005) further recommend that some companies may appoint a lead director who is selected from a pool of independent directors. This would help in terms of checks and balances and would give the Board a sense of integrity that it is an independent Board system.

Proposition 3: CEO and Chairman duality is not directly correlated to firm performance and board effectiveness. Henceforth CEO and Chairman duality should be a Board's prerogative.

2.6.2 Board Composition and Structure

Singh and Davidson III (2003) point out that Board composition and structure largely influence Board effectiveness. Board composition in this context is referring to the difference between executive directors (internal to the company) and independent directors (external to the company). Board structure refers to how the board is organized to execute its work. Board composition and structure should ideally align with the organization's strategy and business model so that a Board of Directors are equipped enough to deal with any challenges that the company is likely to face.

The demarcation of roles between internal and external directors is as follows:

> "Inside directors are better informed regarding the quality of firm investment projects proposed by the CEO, but outsiders can use CEO succession to motivate insiders to reveal their superior information. Board structure affects the flow of information and the effectiveness of the corporate board in replacing inferior projects with superior ones. The optimal board structure is determined by the tradeoff between maximizing the incentive for insiders to reveal their private information, minimizing the cost to outsiders to verify projects, and maximizing outsiders' ability to reject inferior projects." (Raheja 2005: 2)

Heidrick and Struggles (2009) established that:

- Board composition is constrained by issues such as director tenure limits, age limits and restrictions on serving on other boards

- Boards structure is constrained by stock exchange regulations, in the South African context, this would be the Johannesburg Stock Exchange (JSE)

- Given the above limitations, recruiting for effective Boards of Directors has become increasingly difficult

Wan and Ong (2005) state that Board structure and company performance have been a major interest of academic literature. However, most of the literature has not come up with a conclusive relationship between the two variables.

Furthermore, Hermalin and Weisbach (2003) state that research in this field has thus far discovered a number of empirical regularities. These regularities include the fact that Board composition and structure as measured by the insider-outsider ration is not correlated to company performance. In addition, Board actions are related to Board characteristics. This means that firms with a higher proportion of independent directors tend to make better decisions than the converse situation.

Anon (2009) states that a Spencer Stuart Board Index (SSBI) study of S&P 500 found that Board composition and structure had significantly changed in the past ten years. In fact,

> "The last decade has been dramatic for board independence. In 1998, the CEO was the only insider on 23 percent of boards. Today the CEO is the only insider on 44 percent. A total of 36 percent of boards reported lead or presiding directors in 2003, compared with 95 percent today" (Anon 2009: 27)

Clearly, the dynamics of Board composition have increasingly evolved in most recent years. Dalton and Dalton (2005) further attest that there is a large body of research on the impact of Board composition in relation to board effectiveness. Most Boards are now usually composed of independent Boards of Directors (Gillette, Noe and Rebello 2003). This mechanism normally protects a company from the dominance of key

management.

However, Gillette et al (2003) continue to point out that the role of outside Boards of Directors has received mixed results as far as the types of Board characteristics that facilitate effective monitoring and improved governance are concerned. King III (2009) advocates for non executive Boards of Directors constituting a majority of the directors on the Board. This implies that non executive directors are perhaps perceived to add a lot of value and they act as guardians of shareholders' interest.

Proposition 4: Non-executive and independent directors should constitute most of the Board of Directors in order to ensure Board effectiveness.

2.6.3 Board size

As corporate Board reform is at the centre of means to improve Board effectiveness and corporate governance in general, policy arguments have advocated that Board size is one of the characteristics that can improve Board performance. An empirical study that was done by Boone, Casares, Field, Karpoff and Rajeja (2007) established that:

> "Overall, however, the data reject the view that boards systematically are randomly or perversely structured. Rather, corporate boards appear to be adapted to the particular nature of the firm's competitive environment and managerial team. Such environment-specific adaptation undermines the view that board performance generally can be improved by imposing uniform rules on board size or composition" (Boone, Casares Field, Karpoff and Raheja 2007: 30).

Hermalin and Weisbach (2003) in their empirical study of corporate Boards discovered that the number of directors is negatively related to a firm's financial performance. However, it is not clear whether their findings can be used to make same inference about Board effectiveness. Newell and Wilson (2002) argue that there is an appropriate number of Board

seats and that studies suggest that the optimal number is approximately five to nine members. This implies that the smaller the Board, the more effective it becomes. Larger Boards can make the whole process of decision-making long and cumbersome.

An overview of past empirical literature on the effects of Board size on Board effectiveness is depicted on the adapted information reflected in : **Table 1** below:

Table 1: Overview of Past Literature on Board Size

	Sample	Board size	Findings
Yermack (1996)	Panel of 452 large US firms (1984-1991)	4 to 34 Mean: 12.25 Median: 12	• Significant negative effect of board size • Smaller boards fire CEOs more frequently • CEO compensation less, performance dependent if board size is large
Eisenberg, Sundgren and Wells (1998)	785 small Finnish firms (1992-1994)	Mean: 3.7	• significant negative effect of board size • Bad performance implies larger board changes
Postma, van Ees amd Sterken (2003)	94 Dutch firms (1996)	Mean 4.95 Median: 5	• negative board size effect

** Source: (Beiner, Drobetz, Schmid, Zimmermann and Street 2004).*

As illustrated by the table 1 above, the past literature does not seem to come up with any conclusive details on whether there is an optimal Board size that would ensure Board effectiveness. Raheja (2005) argues that proxy statements have provided evidence that Board size should depend on the type of company.

Boone et al (2007) tracked corporate Board development from the time of a company's initial public offering (IPO) through ten years later. The results indicated that Board size and independence increase as companies grow in size and diversify. In addition, Board size and independence are influenced by a combination of firm specific and managerial characteristics.

Beiner, Drobetz, Schmid, Zimmerrmann and Street (2004) found that the size of a Board of Directors is an independent control mechanism and did not find a significant relationship between Board size and firm valuation. Kula (2005) states that larger Boards are more capable of monitoring actions of top management and this reduces the ability for CEOs to dominate the Board. Lager Boards are also able to draw from a wealth of experience. However, larger Boards are laden with disadvantages such as the inability to control management and could be deemed dysfunctional from a strategic making perspective.

Beiner et al (2004) established that larger Boards had the disadvantages of coordination, communication and decision making problems. It appears therefore that there are varying arguments about what constitutes an optimal Board size and whether size matters where Board effectiveness is concerned.

Despite the varying views on the role of Board size in ensuring Board effectiveness, the average Board size has converged over time. According to Anon (2009), approximately 75 percent of Boards have between nine and 13 directors, which represents a major increase from 66 percent in 1998. Heidrick and Struggles (2009) in their annual survey on Board effectiveness found that the average size of Boards was 10.4 members.

Proposition 5: Board size's influence on Board effectiveness is dependant on the company's managerial characteristics and the type of industry in

which the company operates.

Proposition 6: Smaller Boards are arguably more effective in terms of coordination of meetings, communication and decision-making tasks.

2.7 Board Processes

Board process refers to the decision making activities of directors of companies, styles of the Board, the frequency and the length of the Board proceedings, the use of formal procedures to evaluate both Board and management and Board culture (Kula 2005). The literature on Board processes has been limited, until recently. This is mostly attributed to the difficulty of gaining access to Boards.

The need to study Board processes emanates from that fact that Board effectiveness depends on strong internal processes in conjunction with a solid structure and substantive content (Wan and Ong 2005). In fact, “the key to making boards work better rests in an area largely ignored by researchers: board process” (Finkelstein and Mooney 2003: 101).

The importance of Board reform lies in ensuring that processes such as more preparation for Board meetings, more debate, less personal conflicts are encouraged and in place. For example, meeting agendas should be sent to Boards of Directors ahead of time so that they are well prepared. This has also allowed directors to better monitor company performance and to discuss the company’s strategic plans (Wan and Ong 2005).

Conflict on the Board has also been another area of consideration. It has been noted that conflict can be good, as it allows for Boards of Directors to take a more careful evaluation of alternatives and could produce higher quality of strategic decisions. Conflict is also an important determinant of Board effectiveness (Finkelstein and Mooney 2003). Furthermore, Frankelstein and Mooney (2003) posit that Board effectiveness requires goals such as engaging in constructive conflict, working together as a

team, knowing the appropriate level of strategic involvement and addressing decisions comprehensively, to be realized.

Kula (2005) studied the impact of Board processes on firm performance in Turkey and discovered that:

- Board access to information is positively associated with performance
- Perceived effectiveness of Board meetings, frequency of meetings, relative effectiveness of board over top management, effective information gathering are some of the most important processes and characteristics needed to run an efficient and effective Board
- A feedback mechanism is also another crucial processes needed by a Board of Directors. This would ensure that the Board continuously improves it approach to business challenges

The Heidrick and Struggles (2009) results on a Board effectiveness study found that:

- 95% of directors are satisfied that they receive sufficient information to perform their jobs
- CEO satisfaction, however, has declined and less than one-third of directors have independent information channels about the company
- The majority of the Boards surveyed have regular executive sessions
- Despite that governance requirements have become more stringent, less than two-thirds of Boards have regular training for directors

Finkelstein and Mooney (2003) argue that the most valuable approach to understanding Boards is to focus on key characteristics of Board process. These characteristics of Board process can then be used as levers to improve corporate governance practices in companies. In addition, Board process has a major impact overall Board effectiveness. Boards of Directors perceive process issues as the overall mechanism in which they function as a group. Efficient Board processes are vital in ensuring that a

Board of Directors carries out its duties effectively and this also cascades in positive company performance.

Proposition 7: Constructive conflict between Boards of Directors is one of the main determinants of Board effectiveness and a very crucial best practice.

2.8 Board Committees

Changes in corporate governance have continuously increased the importance of Board committees. According to Kula (2005), Board committees are the internal administrative structure in a Board where decisions initially originate. This is essentially the division of responsibilities between Boards of Directors. Board committees normally have a cascading positive effect on Board effectiveness and company performance. Any confusion between the responsibilities of the Board and the committees is likely to reduce the effectiveness of the Board and increase the potential of a weak governance system.

> "The establishment of board sub-committees has been strongly recommended as a suitable mechanism for improving corporate governance, by delegating specific tasks from the main board to a smaller group and harnessing the contribution of non-executive directors... Over the last decade, most large public companies have set up such committees, but their impact on governance standards has not been widely explored" (Spira and Bender 2004: 489).

Heidrick and Struggles (2009) state that 92% of Boards of Directors have felt that Boards effectively use their committees to get work done. Boards of Directors also posit that committees have become more important than they were in 2001. Given that the establishment of audit, remuneration and nomination committees have increased over the decade (Spira and Bender 2009), the King III report (2009) has made some substantial contributes:

- Delegation of authority to Board Committees, who are required to make recommendations to the Board , does not absolve the Board from responsibility

- In terms of audit committees, the independent non-executive director members of the audit committee should be skilled and experience

- The chairman of the audit committee should be an independent non-executive director

Proposition 8: Board committees are a great mechanism to include in Boards as a means of enhancing Board effectiveness.

2.9 Board Recruiting and Development

One of the areas which has been significantly affected by the new corporate governance environment has been the ability for companies to attract competent directors to serve on Boards. The King III (2009) report recommends that a formal training and development of directors' process should exist. This comes as no surprise as:

> "The overwhelming majority of directors will have received little if any preparation for their boardroom roles and there is often confusion between respective roles and responsibilities of the board and of management. Where assessment of directors occurs it tends to be in terms of the managerial or "departmental" performance of executive directions rather than their contribution to the board" (Coulson-Thomas 1994: 29).

The qualities and competencies that are sought in Boards of Directors are often not made explicit. In addition, many Boards refuse to acknowledge the need for director and Board development. One would argue that in order for a Board of Directors to be effective, it needs to have the ability to mobilize its intellectual capital which can only happen through director and Board development.

Boards of Directors also have training and development needs which are

different from those needed by managers. Unfortunately, training and developments needs never seem to reach the Boardroom. Coulson-Thomas (1994) argues that although director training needs may differ according to the context of a company, it is however, possible to profile a competent director and effective Board.

The increase standards of Board accountability and mounting restrictions have also contributed in the difficulties associated with identifying and recruiting competent Board of Directors. The Heidrick and Struggles (2009) survey found that:

- 57% of Boards of Directors were not willing to serve on other Boards
- Best corporate governance practices argue that Boards need to create the right combination of competencies, which further complicates Board recruitment

Heidrick and Struggles (2009) recommended a few initiatives that could help address the challenge of Board recruitment and development. These include but are not limited to the following:

- Training and evaluation of individual Board members
- Nominating committees need to look beyond the CEO in order to expand the pool of potential Boards of Directors
- There should be preparation of long-term director succession and Board evolution plans that are aligned with the company's strategy. This would allow the Board to consider both short and long term skills requirements
- Director recruitment should be an ongoing activity rather than it being done when there is an urgent need to fill a Board seat

In a nutshell, in order to ensure Board effectiveness, Boards of Directors need to possess personal skills in the areas of strategic perception and decision-making, among other competencies. Also, there needs to be a

systematic and rigorous recruitment of Board of Directors (Conforth 2004).

Proposition 9: A systematic and rigorous approach is needed in Board recruitment and development. Board training and development will ensure that Boards of Directors are well equipped to effectively execute their roles.

2.10 Board Dynamics: Relationship between Boards and Management

Each Board is more likely to have its own dynamics. Dynamics would take the form of many factors which include the personalities and relationships among the directors: their background and skills and their connections. Research in this area has attempted to estimate the impact of various Board characteristics against Board conduct and firm performance (Adams et al 2009).

In terms of Board relationships, Shen (2003) states that the relationship between the CEO and the Board of Directors is highly imperative in corporate governance. Given the ownership dynamics of publicly listed companies, the CEO-Board of Directors relationship has been perceived to have major organisational implications. It is therefore important for the Board of Directors to ensure a balance between CEO leadership development and managerial control in its relationship with the CEO.

Heidrick and Struggles (2009) argue that the dynamics of Boards of Directors and management affects the overall effectiveness of the Board. In its survey, Heidrick and Struggles was able to establish the following:

- Changes in corporate governance have increased interest in the relationship between directors and management
- Most directors reported good working relations with management (91%)

- 90% of the directors surveyed mentioned that their Boards behaved independently of management

Effective Boards are those that have the ability to incorporate many different, sometimes strongly-held, views when it comes to decision-making.

Proposition 10: Good working relations between management and the Board of Directors are an important recipe for Board effectiveness.

2.11 Board Diversity

Corporate Board diversity can be defined as the percentage of racial or ethnic members on a Board (Fairfax 2005). Dalton et al (2005) point out that the benefits of Board Diversity include constructive debate and full consideration for all issues at hand and most importantly: enhanced innovativeness and the ability for a Board of Directors to champion change. In effect, this will benefit shareholders.

> "Boards of Directors, as a pre-eminent decision-making body in a corporation, seem a timely and relevant backdrop for considering concepts of group decision-making and diversity" (Dalton et al 2005: 8).

Carter, Simkins and Simpson (2003) attest that diversity has positive effects on Board effectiveness and company performance in the following ways:

- Diversity helps a company to promote a better understanding of the marketplace. This means that the company's profile is enhanced in the marketplace

- Diversity increases creativity and innovation

- Diversity produces better problem-solving techniques as there is a variety of perspectives in terms of race, gender and age to contribute

to the decision-making process

- Diversity also enhances Board and corporate leadership. This helps in better understanding the complexities of a more challenging business environment

- Finally, diversity helps the company to promote strong global relationships in an increasingly diverse marketplace

In terms of job diversity, given an increasingly globalized world, it comes as no surprise that Boards are tending to seek for directors with international experience. It is expected that Boards will continue in the next couple of years to seek women and minorities. Board Tenure has also seen some changes; Boards of Directors serve shorter terms. According to Anon (2009), 66 percent of Boards have one-year terms.

A diverse Board of Directors, whether by race, tenure, gender or background, brings a unique contribution which could enhance Board effectiveness and improve a company's goals. Anon (2009) states that the next five years will see more diversity in boardrooms in terms of gender, race, perspective and experience. This demonstrates the fact that the profile of a Board of Directors continues to evolve with time.

Proposition 11: Companies should increase Board diversity as it increases Board effectiveness.

2.12 Board Best Practices: What Makes an Effective Board?

At this juncture, it is perhaps appropriate to look at a consolidated view of Board best practices in terms of what makes for an effective Board. According to McGregor (2000), an effective Board is one that:

> Provides strategic oversight, evaluates corporate and top executive performance, represents and relates to shareholders, serves as a resources to top management, protects and enhances the company's assets and fulfils

legal requirements (McGregor 2000:175).

PriceWaterHouseCoopers (2001) in their Meeting Market Expectations series where 80 of the world's leading companies were surveyed found that companies were increasingly recognizing that best practices were rewarded by the market. In addition, PriceWaterHouseCoopers in their series recognized that there is no one size fits all template which can be applied to all markets. However, the company is of the opinion that "there are some good practices which all listed companies should at least consider, regardless of the country or sector they are operating in." (PriceWaterHouseCoopers 2001: 6).

From the aforementioned PriceWaterHouseCoopers (2001) survey, the company suggested that all companies should consider the following best practices for effective boards, which can also be used as a Board's self-assessment guide:

- There is a strong working partnership between the Board and senior management-the Board provides strategic oversight; management is responsible for operations
- There is a strong independent element on the Board
- Board size is small enough to provide for effective debate and decision making
- Board sub-committees are created in order to assist with sensitive issues such as executive appointments
- Consideration is given to separating the roles of Chairman and CEO, where these are combined
- Board Meetings are held regularly (at least quarterly, preferably monthly)
- The Chairman, other Board members and the secretary are clear about their respective roles and responsibilities

- There is succession planning in place for identifying the next generation of executives to lead the company
- The Board reviews and challenges management's strategic options and proposals

Although the above findings from the PriceWaterHouseCoopers survey did not cover some of the best practices previously identified in the Literature Review, a study done by Gregory (2001) under auspices of world renowned law firm Weil, Gotshal and Manges on the international comparison of corporate governance guidelines and codes of best practice found that:

- The Boards of listed public companies should consist of a majority of non-executive directors of sufficient calibre
- Boards may consider establishing specific committees which may require a minimum number, or composed entirely of non-executive members
- The Board should fulfil certain key functions, including…ensuring a formal and transparent nomination process
- In addition, in order to improve Board practices and the performance of its members, it is useful for a Board to engage in training and voluntary self-evaluation that meets the needs of the individual company.

It should be mentioned that there has not been evidence in academic literature that has come with a consolidated model for what makes an effective Board. This observation is further attested by Carver (1998) who points out that " because of pressures of corporate boards to perform more assertively and proactively, the need for a model will grow in years ahead, if only so that strengthening the board does not equate to appropriate weakening of CEOs (Carver 1998: 16).

Nonetheless, one would argue that the above list of best practices would

suffice for now as a model of how an effective Board should look like and be run. The academic literature discussed thus far was able to establish most of the aforementioned best practices.

2.13 Board Best Practices –Perspectives and Approaches in the ICT Sector

The ICT industry in South Africa is highly competitive with various local and international competitors seeking to expand their market share. In order to become a player in the market there are stringent and sophisticated regulatory hurdles which need to be overcome as well as various political interventions which must be anticipated and managed.

On a global scale, the ICT industry has experienced rapid evolution and growth. To that end, governments and regulators have attempted to find the best and most efficient ways to govern ICT firms. There has also been advocacy for good governance practices and the need to recognize relevant stakeholders (O' Regan, O'Donnell, Kennedy, Bontis and Cleary 2005).

Although the focus of this research is to determine Board best practices that can enhance Board effectiveness in the ICT sector, the author discovered that this is not a well documented sector. In that regard, the literature review will be quite limited. The lack of literature in this sector provides a stronger case why this research is important to the body of knowledge.

A study on corporate governance of the Irish ICT sector (O'Ragan et al 2005) found that the focus on corporate governance in the ICT sector has been on improving the efficiency, effectiveness and competency of ICT Boards. This is arguably the same proposition of Board reform in other sectors. The aforementioned study, similar to this proposed research, looked at the composition, structure and size of ICT companies in Ireland. The main result was that there was little or no variation in numbers in

terms of gender, size or age compared to other sectors.

Executive directors were found to be the majority. This is certainly against the norm of what has been advocated for in terms of promoting Board effectiveness. Essentially, the governance structure and best practices for the Board of Directors of the ICT sector in Ireland were found to be similar to that of other sectors. Other characteristics such as Board committees and director development were not considered by the study. However, one would argue that the issues associated with these characteristics should be similar to those that have been identified by the literature review thus far.

Proposition 12: It is expected that governance best practices of the ICT sector will be similar to generally accepted best practices from other sectors.

Proposition 13: Composition, structure and size of ICT Boards will be consistent with other sectors.

2.14 Conclusion of Literature Review

The focus of the literature review was to determine the best practices needed for Boards of Directors in the ICT sector to function in an effective manner. The literature review identified the following best practices which will be further investigated to ascertain whether listed ICT companies adhere to them:

- Good practice in corporate governance is essential in building shareholder and investor confidence
- Boards of Directors have a clearly defined understanding of their roles and functions
- CEO and Chairman duality is not directly correlated to firm performance and board effectiveness. Henceforth CEO and Chairman

duality should be a Board's prerogative

- Non-executive and independent directors should constitute most of the Board of Directors in order to ensure Board effectiveness
- Board size's influence on Board effectiveness is dependant on the company's managerial characteristics and the type of industry in which the company operates
- Smaller Boards are arguably more effective in terms of coordination of meetings, communication and decision-making tasks
- Constructive conflict between Boards of Directors is one of the main determinants of Board effectiveness and a very crucial best practice
- Board committees are a great mechanism to include in Boards as a means of enhancing Board effectiveness
- A systematic and rigorous approach is needed in Board recruitment and development. Board training and development will ensure that Boards of Directors are well equipped to effectively execute their roles
- Good working relations between management and the Board of Directors are an important recipe for Board effectiveness
- Companies should increase Board diversity as it increases Board effectiveness
- It is expected that governance best practices of the ICT sector will be similar to generally accepted best practices from other sectors
- Composition, structure and size of ICT Boards will be consistent with other sectors

The research that was subsequently conducted includes the identified best practices and establishes best practices more specific to the ICT sector.

CHAPTER 3: RESEARCH METHODOLOGY

This section describes the methodology used to conduct the research and the propositions listed in the conclusion in section 2. This is achieved by a review of the research methodology. This will be followed by a discussion on the research design, population and sample and the research instrument. The section will then look at the procedure for data collection, data analysis and interpretation. Finally, the section will discuss limitations and validity and reliability of the study.

3.1 Research Methodology

Given that the research was both exploratory and descriptive, it therefore meant that the qualitative methodology would be the most appropriate methodology to utilize in this research. Qualitative research is defined as the process of gaining insight into people's behaviours, value systems, inspirations and ambitions by analysing unstructured information such as interview transcripts, emails and feedback forms (OSR International 2007). There are a number of benefits associated with the qualitative research methodology: the qualitative method enables a researcher to "study meanings. It allows the researcher to tap into the perspectives and interpretations of participants." (Willig 2008: 158).

In addition, the qualitative research method was appropriate because it would enable the researcher to collect "open-ended emerging data with the primary intent of developing themes from the data." (Creswell 2003: 18). The data of the proposed research was collected through interviews with Boards of Directors in the ICT sector. Henceforth, the interview questions were open-ended but structured.

3.2 Research Design

Due to the fact that the best practices of effective Boards of Directors in the ICT sector have not been adequately researched and well documented, this warrants the need and justification for a qualitative

approach. This approach is useful for a researcher who is not certain of the important variables to examine (Cresswell 2008). Henceforth, the research design took the form of a simple interpretive study. Furthermore, this approach "maybe needed because the topic is new, the topic has never been addressed with a certain sample or group of people." (Cresswell 2008: 22).

The advantage of this approach is that is can help generate novel ideas in a subject and can also account for tensions and contradictions in the data collected (Willig 2008). In addition, it was assumed that the respondents would be familiar with an interview structure. This would allow the researcher to elicit more in-depth responses and fill in information in instances where the respondent does not understand the question. However, this approach was also laden with some disadvantages which included the fact that qualitative research tends to be uncertain in some instances. Also, it was expected that the questions posed to the respondents would be misunderstood in some cases and there could be a lack of rapport between the researcher and the respondent (Willig 2008).

3.3 Population and sample

3.3.1. Population

The population was drawn from ICT companies listed on the JSE, including their subsidiaries located in the Gauteng province in South Africa. The reason being that it was easier to gain access to these companies and to set up interviews. For the purposes of this research, only Boards of Directors of the aforementioned firms were interviewed.

3.3.2. Sample and Sampling Method

The researcher endeavoured to conduct 20 in-depth interviews with Boards of Directors of listed ICT companies in the Gauteng province from 10 targeted companies. However, after months of constant follow up with

the identified Boards of Directors, the number decreased to 14 interviewees from 8 companies. Although the proposed 20 interviews were not achieved, the researcher saw convergence in the responses early on in the interviewing process. It can, therefore, be argued that the number that was finally achieved, 14, was appropriate enough to draw substantial conclusions on the subject. In addition, given the fact that the researcher endeavoured to interview Boards of Directors who are by virtue of sitting on Boards are limited in terms of availability, the researcher also conducted phone interviews in some instances.

This is convenient sampling. Selecting a small sample tends to be effective in generating in-depth insight into the investigated problem (Leedy and Ormrod 2001). Interviews were solicited via telephone and email. In the event that a targeted Board of Director was not available, an alternate who was equally equipped to respond to the interview questions was solicited. In some instances, the alternate would be a company secretary who was equally equipped to respond to the interview questionnaire.

The nature of the research warranted that the sample would be non-random and non-probable. The researcher also hoped that the targeted respondents would be in a position to refer the researcher to other Boards of Directors within the ICT sector. Hence, benefitting from the snowball sampling effect. In some instances, the snowball sampling effect worked and in others it did not.

3.4 The research instrument

The semi-structured interview questionnaire is provided in Appendix D and was used as the research instrument. The advantage of a semi-structured interview was that the researcher would be able to explore other interesting insights if and when they arose. The disadvantage of this kind of research instrument is that the respondents may be concerned about issues of confidentiality, especially given the area of discussion. There were a number of instances where the interviewees requested that

they not be identified, despite the fact that a confidentiality agreement had been signed.

3.5 Procedure for data collection

The data was collected through both face to face and in-depth telephonic interviews which were arranged with Boards of Directors who sit on ICT companies listed on the JSE. It was appropriate to interview Boards of Directors who sat on these companies as they were well placed to provide concrete insights on what they perceived as best practices needed for ICT Boards of Directors in order to be more effective.

Some interviews took place at the respondents' premises and some, as already mentioned, had to be conducted on the phone due to availability constraints. The interviews were semi-structured in nature. This enabled the researcher to direct the conversation in line with the topic at hand. Furthermore, this allowed the respondents to be comfortable in expressing their views. The researcher also requested for interviews to be recorded and notes were taken.

Given issues of confidentiality, the researcher ensured that respondents were given a confidentiality agreement generated by the researcher in conjunction with the Business School.

The researcher ensured that the interview questions and a cover letter were sent ahead of time in order for the respondent to have time to reflect and share in-depth insights on the questions posed. The interview questions explored the following themes:

- Views on good Corporate Governance
- Roles and Responsibilities of the Board
- CEO and Chairman Duality
- Non-executive and Executive Directors

- Board Size
- Board Processes
- Board Committees
- Board recruitment and development programmes
- Relationship between the Board of Directors and management
- Diversity on the Board
- Best practices in the ICT sector

3.6 Data analysis and interpretation

The most fitting analysis and interpretation of this research was content analysis. In the context of content analysis, data is analysed by highlighting trends and themes.

The feedback from respondents was coded and tabulated in a spreadsheet in order to highlight common trends and themes that emerged from the interviews. It was expected that the coding would enable the researcher to confirm existing theory or add to the body of existing literature on the subject of best practices of Boards of Directors in the ICT sector. Differences and inconstancies in the responses received were also highlighted. The coded interviews were coded according to the propositions identified in the literature review. A theme that was found recurring in a single interview was only counted once in the coding process.

The codes that were generated served to confirm most of the propositions that were discovered in the literature review. In some instances, new propositions were generated which added to the body of knowledge in the discipline. These new propositions were grouped together and are further discussed in chapters 5 and 6.

3.7 Limitations of the study

The research was reliant on a sample of individuals. Also, respondents were very difficult to secure, they would either not respond or cancel interviews which then impacted on the initial proposed number of respondents interviewed.

3.8 Validity and reliability

3.8.1. External validity

External validity is the extent to which findings of a study can be generalized to other contexts (Babbie and Mouton 2004). Hence, the research was based on guidelines which could easily be adapted to different contexts (Leedy and Ormrod 2001). Given that the sample was limited by the size of the convenient sample, limited generalizations were made. It was therefore expected that the interview instrument would be reliable enough but external validity would probably not be as formidable.

3.8.2. Internal validity

Internal validity is defined as the extent to which the data collection instrument is designed in such a way that it ensures that the research draws accurate conclusions (Leedy and Ormrod 2001). In order to demonstrate that internal validity exists, the researcher ensured that the research methodology, instrument and results were analyzed based on face validity and plausibility. Findings from the interview were analyzed in such way that they were in line with other similar research in the field.

3.8.3. Reliability

Reliability is defined as the extent to which a given research question yields the same results if the same research is conducted in the future (Leedy and Ormrod 2001). In the context of this research, reliability was

achieved by ensuring that the researcher conducted interviews personally and that there was uniformity.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

This chapter presents the results of the conducted research. The chapter comprises eleven sections: each section presents the findings related to the research's objective. The findings include:

- Views on good Corporate Governance
- Roles and Responsibilities of the Board
- CEO and Chairman Duality
- Board Composition and Structure
- Board Size
- Board Processes
- Board Committees
- Board recruitment and development programmes
- Relationship between the Board of Directors and management
- Diversity on the Board
- Best practices in the ICT sector

4.2 Demographic profile of respondents

The demographics of the research sample was Boards of Directors of ICT companies, primarily JSE listed companies. The sample also included subsidiaries of these companies and in some instances the researcher interviewed Boards of Directors of a group subsidiary based in another country, such as Democratic Republic of Congo (DRC). The researcher had initially planned to obtain interviews with Boards of Directors based in

the Gauteng area. In addition, the researcher had initially planned to obtain 20 interviews. However, due to lack of response, and continual persistence by the researcher, the researcher ended up obtaining 14 interviews and had to improvise with location of interviewees as well.

4.3 Views on Good Corporate Governance

Proposition 1: Good practice in corporate governance is essential in building shareholder and investor confidence.

Interviewees were asked for their views on good corporate governance where shareholder and investor confidence were concerned. The table below summarizes the main themes that were generated during the interviews:

Table 2: Views on Good Corporate Governance

Views on Good Corporate Governance	Frequency of occurrence	%
Shareholders are looking to the Board to be a yard stick on their behalf	7	50
Good Corporate Governance is good for Return on Investment	10	71.42
Not top of the list, Investors and Shareholders look beyond corporate governance	1	7.14
Shareholders and Investors want to be associated with a business that adheres to good corporate governance	13	92.86
Critical for shareholder and investor confidence	13	92.86

As depicted by the table above most of the respondents, 13 out of the 14 (92.86%) agreed that shareholders and investors want to be associated with a business that adheres to good corporate governance. In addition, most of the respondents, 13 out of the 14 (92.86%), agreed that good corporate governance is critical for shareholder and investor confidence. Other key points highlighted in the interviews included:

- Good corporate governance is very important for proper management and oversight of any company

- Where governance is good, it is usually accompanied by good operational and stock market performance
- Good corporate governance creates a sustainable atmosphere of growth and performance

4.4 Roles and Responsibilities of the Board

Proposition 2: Boards of Directors have a clearly defined understanding of their roles and functions

Interviewees were asked if their Boards had clear guidelines on their roles and responsibilities and how that affected the way in which their Boards functioned. All the 14 (100%) respondents pointed out that Boards of Directors on their Boards had clear guidelines on their roles and responsibilities. This also included what is defined in the Boards charters and general fiduciary duties. According to the respondents, Boards of Directors in the ICT sector are duly aware of their key deliverables. This in ensures that their Boards function effectively.

4.5 CEO and Chairman Duality

Proposition 3: CEO and Chairman duality is not directly correlated to firm performance and board effectiveness. Henceforth CEO and Chairman duality should be a Board's prerogative.

Interviewees were asked their views on CEO and Chairman duality (company having the same individual as CEO and Chairman) and whether this had any direct correlation with Board effectiveness.

10 out of the 14 (71.42%) respondents asserted that it was important to separate the roles in order for objectivity to take place on the Board. In addition, these respondents felt that there was a positive correlation between CEO and Chairman duality and how the Board functioned. The support for separation of roles and its correlation with how the Board

functioned was based on the following arguments:

- King 111 recommends the separation of CEO and Chairman
- If roles are not separated, it would dilute transparency. Roles need to be separated for the sake of check and balances. The CEO is there to ensure the effective running of a company. The Chairman's responsibility is to ensure that the Board functions effectively
- Independence of a Chairman is critical in ensuring objectivity on the Board
- For an investor, it compromised governance because the Board ends up becoming an extension of the management team. In addition, it concentrates too much power on one individual
- In cases where there is no division of responsibility between the Chairman and the CEO, there is usually a blurred accountability scenario

4 out of the 14 Boards of Directors (28.57%) thought that it depended on other factors. These factors included:

- The culture and type of organization
- Board effectiveness was effectively assured by a competent Chairman who is able to contextually play "devil's advocate"
- It is beneficial for executive management as they can influence quicker decision-making

In essence, the majority of respondents agreed that there should be a separation of roles between the CEO and Chairman. In addition, the majority of respondents felt that there was a positive correlation between separation of CEO and Chairman roles and how the Board functioned.

4.6 Board Composition and Structure

Proposition 4: Non-executive and independent directors should constitute most of the Board of Directors in order to ensure Board effectiveness.

Interviewees were asked about the split between non-executive and executive directors on their Boards and whether it had any effect on Board effectiveness? In addition, interviewees were asked about what they thought the optimal number was for non executive and executive directors on the Board.

13 out of the 14 (92.86%) respondents stated that most of their Boards constituted of a majority of non-executive directors. All the respondents agreed that the presence of non-executive directors had a positive impact on how the Board functioned. The following were listed as some of the advantages of having a majority of non-executive directors:

- It enhances strategic debate and discussion
- The independence of the Board is important for maximum effectiveness and accountability. This independence is maximised by ensuring that the majority of the directors are non - executive and independent
- It ensures that Boards of Directors are not just a rubber stamp for management
- It also enhances the broad experience that a company can effectively leverage
- A company can benefit immensely if the non-executive directors can be allocated to aspects of the company's business such as Human Resources and Finance or other sub-committees
- It creates some sort of balance on the Board

I out of the 14 (7.14%) respondents stated that the majority of Boards of

Directors on the Board were executive directors. The attributed reason for this was because it was a family listed business.

Overall, it was discovered, as per the majority of respondents that in order for a Board to function effectively, it should constitute of a majority of non-executive directors.

4.7 Board Size

Proposition 5: Board size's influence on Board effectiveness is dependant on the company's managerial characteristics and the type of industry in which the company operates.

Interviewees were asked if the size of their Boards affected Board performance or effectiveness. Finally, interviewees were asked to recommend an optimum Board size.

9 out of the 14 respondents (64.29%) stated that Board size influenced Board performance. 3 out of the 14 respondents (21.43%) stated it depended on other factors. 2 out of the 14 respondents (14.29%) said that Board size had no impact on Board performance.

The respondents that said that Board size influenced Board performance gave the following views in support of their assertions:

- A smaller Board is more effective
- A smaller Board allows each of the Board members to have their voices heard. On the other hand, a large Board may end up with the loudest individuals dominating, and the brightest ideas being unheard from the less forceful Board members
- Larger Boards tend to be more ineffective. In fact, a Board that is too large may undermine effectiveness and create personality mixes that hinder productivity, especially if the Chairman is not firm enough

- Coordination in a larger Board is more challenging especially when it comes to convening meetings

The respondents that said that other factors influenced Board size and performance gave the following reasons:

- Board size and its influence on performance is influence by the size of the company. Henceforth, it would be expected that the smaller the company, the smaller the number of directors
- It is important to have just enough directors covering the skills and experience base required for proper performance of its duties

The respondents that said that Board size had no impact on Board performance gave the following reasons:

- The Board decision-making process where performance was concerned was independent of Board size

In terms of the recommended optimal size of a Board, all respondents stated that there was no particular number that they could recommend. However, the optimal size depended on:

- The size of the company and the industry in which it operates
- The market capitalization of the company

4.8 Board Processes

Proposition 6: Constructive conflict between Boards of Directors is one of the main determinants of Board effectiveness and a very crucial best practice.

Interviewees were asked whether their Board's processes were efficient. In addition, respondents were asked to comment on whether constructive conflict among Board members made a Board more effective.

All 14 (100%) respondents stated that they had efficient Board processes

and also agreed that constructive conflict was an important best practice as it enhanced Board effectiveness. The overarching theme was the fact that functioning of the Board is largely in the hands of the Chairman. A good Chairman and adherence to best practices as far as Board processes are concerned will create a climate of productive Board member participation in the business of the Board.

The respondents stated the following reasons on why constructive conflict was an important best practice:

- At Board level one is looking to have different ideas discussed in order to reach an optimal solution for the company. It is not always helpful when all Board members are all in agreement, as this may lead to a common blind spot that is not addressed
- Constructive disagreement is good for decision-making: it allows for robust engagement
- A company needs independent views which are constructive and not personal, it is for the benefit of a company
- It allows Board members to anticipate that they will have to account for different opinions thus ensuring that proposal submissions are well thought out

4.9 Board Committees

Proposition 7: Board committees are a great mechanism to include in Boards as a means of enhancing Board effectiveness.

Interviewees were asked whether their Boards constituted of Board committees and whether the presence of Board committees affected Board effectiveness.

13 out of the 14 (92.86%) respondents pointed out that they had Board committees on their Boards. While 1 out of the 14 (7.14%) respondents pointed out there were no Board Committees on their Board. The

benefits of Board committees were recognized as follows:

- Best practice in corporate governance requires that Boards have specialised or focused committees such as the audit and risk committees
- The committee approach allows for greater focus on specific Board duties by fewer, more relevant skilled Boards of Directors resulting in more efficient and productive outcomes
- They make a Board more effective because Boards of Directors are given more delegated power
- Board committees for specialized units within the Board and therefore act as sub advisory members to the Board
- Board of Directors have a good view of what is actually going on in a company especially from a liability point of view
- Board committees provide some sort of comfort to shareholders as it inspires confidence on how a company is run
- Board committees tend to receive more detailed feedback than the Board. This allows the Board to debate key issues

4.10 Board Recruitment and Development Programmes

Proposition 8: A systematic and rigorous approach is needed in Board recruitment and development. Board training and development will ensure that Boards of Directors are well equipped to effectively execute their roles.

Interviewees were asked whether Board recruitment and Board development programmes were prominent on their Boards. In addition, respondents were asked to comment on how this affected they way Boards functioned. Table 3 below summarizes what the respondents

thought on the matter:

Table 3: Existence of Board recruitment and Development Programmes

Board recruitment and Board Development Programmes	Frequency of Occurrence	%
Existence of programmes	9	64.29
Non-existence of programmes	5	35.71

As depicted by table 3 above, 9 out of the 14 respondents (64.29%) pointed out that Board recruitment and Board development programmes existed on their Boards. 5 out of the 14 respondent (35.71%) pointed out that these programmes did not exist on their Boards.

Respondents pointed out that the existence of Board recruitment and development programmes affected the way Boards functioned in the following ways:

- They assist in situations where there are vacancies to be filled and newly appointed directors get an opportunity to be inducted into how that particular Board functions
- They help in succession planning
- They assist in optimizing Board effectiveness
- Even after Boards of Directors have been on-boarded, they require regular development or update sessions in the areas of best practices in governance, law and other specific skills

4.11 Relationship between Board of Directors and Management

Proposition 9: Good working relations between management and the Board of Directors are an important recipe for Board effectiveness.

Interviewees were asked to describe the relationship between Board of Directors and the company's management. Interviewees were then asked how the relationship affected the way the Board functioned.

All 14 (100%) respondents pointed out there was a strong, positive relationship between Board of Directors and Management. The respondents mentioned that the positive relationship between Board of Directors and management had the following benefits:

- A good relationship between Board of Directors and management is crucial for the effectiveness of the Board as management runs with all daily activities in the business and the Board depends on management for execution of decisions and provision of information
- It enables the Board to play a supportive role to management, which includes providing strong guidance where management can be assisted to arrive at more creative solutions for the company
- It ensures best alignment of interests between Board of Directors and management
- The Board and management work as partners; it becomes a team effort. Mutual respect is facilitated and enhanced

4.12 Diversity on the Board

Proposition 10: Companies should increase Board diversity as it increases Board effectiveness.

Interviewees were asked to describe diversity on their Boards from a number of themes: race, gender, educational, among others. Interviewees were also requested to comment on how diversity has affected Board performance.

All 12 out of the 14 respondents (85.71%) respondents stated that their Boards were diverse across race, education, gender and industry experience. 2 out of the 14 (14.29%) respondents stated that their Boards were not as diverse.

Benefits of diversity where Board effectiveness is concerned were stated

as follows:

- It ensures that the Board is not one dimensional in its approach to strategy and problem solving
- Given the varying degrees of diversity on the Board, there is more attention to detail when it comes to the problem solving process
- Diversity is important for all Boards for improved effectiveness. A more diverse Board can best deal with the challenges of today's global business environment better
- Diversity is also a competiveness issue due to BBBEE requirements in South Africa
- Diversity enhances knowledge transfer

The respondents who stated that their Boards were not diverse pointed out that lack of diversity did not affect Board performance for the following reasons:

- Diversity is meant for compliance purposes, not performance. It is therefore sub-optimal
- Diversity on the Board does not affect performance as performance is not tied to diversity but it would be as a result of effective individuals

4.13 Best practices in the ICT Sector

Proposition 11: It is expected that governance best practices of the ICT sector will be similar to generally accepted best practices from other sectors.

Interviewees were asked to comment on whether Board best practices in the ICT sector would be different from those of other sectors.

9 out of the 14 (64.29%) respondents stated that best practices of the ICT

sector were not different from those of other sectors. 5 out of the 14 (35.71%) respondents stated that best practices in the ICT sector were different from those of other sectors.

The respondents who said that best practices in the ICT sector were not different from those of other sectors stated the following reasons:

- Board best practices would generally be the same across all sectors. The governance issues are similar to those of other sectors
- Board best practices are similar regardless of the industry in which a company operates

The respondents who stated that best practices in the ICT sector were different from those of other sectors gave the following reasons:

- Due to technical nature of the ICT sector, the skills issues may be challenging
- Inherent risk in ICT sector is very different from those of other sectors

4.14 Other Factors

Interviewees were asked to identify other best practices that were not discussed during the course of the interview.

Some of the identified best practices included:

- Adoption of Board and sub-committee performance evaluation so that there is continuous improvement
- Having an independent Chairman of the Audit and Risk committee
- Having a regular non-executive director rotation system which allows the Board to benefit from fresh skills and perspectives to

enhance Board effectiveness

- Non-executives meeting separately from executive directors
- Management and Board of Directors strategy sessions are a joint venture, which makes a major difference in directing a company's future

4.15 Summary of the Results

The 14 respondents confirmed the findings discussed in the literature review section. The chapter was able to establish conformity between the propositions generated in the literature review chapter and the perspectives shared by the respondents. The chapter also established other best practices in the ICT sector beyond the ones that were originally investigated.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter discusses research results with reference to the literature review. The chapter aims to validate the research propositions indicated in the literature review section.

5.2 Demographic Profile of Respondents

Interviews were conducted with 14 Boards of Directors from 8 ICT listed companies in Gauteng province and in some instances in subsidiaries based in other countries such as the Democratic Republic of Congo. The researcher had originally planned to carry out 20 in-depth interviews. However, after constant follow up with a number of Boards of Directors, the number was reduced to the aforementioned 14 due to the difficulties of securing interviews. The nature of the interviewees that was being solicited dictates that they are highly busy individuals and are therefore not readily available to respond to requests.

5.3 Views on Good Corporate Governance

Good corporate governance is important for building shareholder and investor confidence. Good corporate governance ensures high stock market performance and return on investment. Shareholders and investors will generally place greater confidence in a company that has good corporate governance mechanisms in place. In addition, shareholders are looking to the Board to be a governance yard-stick on their behalf. This was in line with the proposition identified in the literature review, which posited that good practice in corporate governance is essential in building shareholder and investor confidence.

5.4 Roles and Functions of the Board

Boards of Directors in the ICT listed companies have clear guidelines on their roles and responsibilities on the Boards they serve. This ensures proper functioning and effectiveness on the Board. Although Boards of Directors will tend to bring their own understanding on their roles and responsibilities from their previous experiences, ICT listed companies have ensured that Boards of Directors are constantly updated on guidelines, laws, roles, responsibilities and current best practices. The researcher was able to establish and validate the proposition that Boards of Directors in the ICT sector have a clearly defined understanding of their roles and functions. This is in line with previous academic research on the subject.

5.5 CEO and Chairman Duality

CEO and Chairman Duality is a common trend in countries such as the USA. However, this trend has steadily decreased overtime. In South Africa, this is not the case due to the culture of good governance as purported by the King Reports. It is important to separate the role of CEO and Chairman in order to enhance objectivity and accountability on the Board. Separating CEO and Chairman roles enables the CEO to focus on the effective running of a company and the Chairman on the effective running of a Board.

There is a dissenting view, however, that CEO and Chairman duality does not necessarily affect the way a Board functions as this depends on other factors. These factors include the culture and type of organization in which a company operates.

Overall, best practice is clear in discouraging CEO and Chairman Duality especially in the context of South Africa. In addition, best practice advocates for separation of duties which will in effect contribute to greater effectiveness of the Board. This will also ensure the strengthening of

oversight and accountability.

In conclusion, the findings in this regard where therefore contrary to academic literature which stated that CEO and Chairman duality is not directly correlated to firm performance and Board effectiveness. However, there were respondents that supported this premise, albeit, not the majority.

5.6 Board Structure and Composition

Academic literature and the majority of interviewees argue that non-executive and independent directors should constitute the majority of Board of Directors on a Board to ensure Board effectiveness. The presence of non-executive and independent directors has a positive impact on how a Board functions. The benefits of having a majority of non-executive and independent directors include:

- Enhanced strategic debate and discussion
- Independence of the Board is maintained
- Enforces checks and balances on the Board
- Leverage for the Board from broad experience of Board of Directors

In essence, the researcher was able to establish that a Board that comprises a majority of non-executive and independent directors ensures that a Board functions well and that it is an important best practice to adopt.

5.7 Board Size

The majority of interviewees stated that the size of a Board influences Board performance. This was contrary to what was found in the literature review which stated that a Board's size's influence on Board effectiveness is dependent on the company's managerial characteristics and the type of

industry in which the company operates. There were, however, supporting views on this premise but they did not represent the majority of respondents.

Smaller Boards tend to be more effective and allow for enhanced debate. Larger Boards tend to be more ineffective and are difficult to coordinate. It is therefore best practice to ensure that companies in the ICT sector maintain smaller Boards.

5.8 Board Process

Efficient Board processes are important in ensuring that a Board functions well in a productive climate. The functioning of a Board is dependent on the strength of the Chairman. A good Chairman who ensures adherence to good Board practices will also have the ability to ensure that there are high levels of director participation, thus creating a free flow of ideas, some of which maybe constructively laden with conflict.

Constructive conflict as most academic literature has found is one of the main determinants of Board effectiveness and a crucial best practice. Constructive conflict is good for decision making and allows for robust engagement. It is important to have different ideas discussed on the Board in order to reach optimal solutions for the benefit of a company.

Both the literature review and interviewees were able to confirm that constructive conflict and efficient Board processes are important best practices and are crucial for Board effectiveness.

5.9 Board Committees

It is a fundamental best practice that Boards have specialized committees where specific Board of Directors are focused on certain tasks pertaining to a company. This allows for more efficient and productive outcomes. Committees allow for delegation of power and responsibilities to different Boards of Directors. Furthermore, committees are able to act as advisors

to the main Board on various issues affecting a company. This is also means that Boards of Directors are adequately equipped to make substantive decisions based on detailed feedback from the various committees.

Inclusion of Board committees on Boards is therefore crucial in enhancing Board effectiveness.

5.10 Board Recruitment and Development Programmes

Board recruitment and the offering of continued development programmes are important in order to optimise Board effectiveness. Board recruitment and development programmes have assisted ICT listed companies on issues of induction for new Boards of Directors and succession planning. As new laws and trends are introduced, development programmes also become important in ensuring that Boards of Directors are kept up to date with the latest governance and best practices trends.

There are, however, ICT listed companies who do not have such programmes on their Boards, which arguably limits their effectiveness in the long run.

Both the literature review and the research results established that Board recruitment and training will ensure that Boards of Directors are well equipped to effectively execute their roles.

5.11 Relationship between Board of Directors and Management

Relations between a Board of Directors and management need to be positive for the success of a company. They should all be part of the same team. However, it is important that the Board operate independently of management and provide leadership to management. A good relationship between the Board and management is crucial for the effectiveness of the Board. The Board depends on management for

execution of decisions and provision of information.

The literature review and research findings were therefore able to conclude that good working relations between management and the Board are crucial for the effective functioning of a Board.

5.12 Diversity

Diversity is important for all Boards for improved effectiveness. This would be in the area of gender, race, skills and experience, among other metrics. A more diverse Board can best deal with the challenges of today's global business environment. Diversity assists companies in dealing with competitiveness. A number of ICT listed companies have seen and realized the benefits of having increased diversity on their Boards. Diversity of individuals and perspectives has ensured that there is a multi-dimensional approach to problem solving, including knowledge transfer. Despite the inroads that have been achieved on Board diversity, there are still some listed companies that are not as diverse across some of the aforementioned metrics.

From both the literature review and research findings, it would appear that it is in the best interests of ICT listed companies to adopt and increase Board diversity as it not only enhances Board effectiveness but it makes good business sense, especially in the context of the South African business landscape where there are requirements such as Black Economic Empowerment and its various codes that companies have to adhere to.

5.13 Best practices in the ICT Sector

Board best practices would generally be the same across all sectors. However, due to the technical nature of the ICT sector, there could be challenges related to Boards of Directors skills. Other possible differences between the ICT sector and other sectors relates to the inherent risk and

constant regulatory changes in the ICT sector.

The literature review and research findings confirmed the premise that governance best practices of the ICT sector will be similar to generally accepted best practices of other sectors.

5.14 Conclusion

The chapter was able to validate and prove the results findings with what was generated in the literature review in the form of propositions. Most of the propositions in the literature review were confirmed by the research findings. However, there were some differences in perceived best practices for the ICT sector in the following areas:

- CEO and Chairman Duality: research findings advocated for separation of roles in order to enhance firm performance and Board effectiveness. However, academic literature posits that CEO and Chairman duality is not directly correlated to firm performance and Board effectiveness

- Board size: research findings concluded that Board size does influence Board performance and effectiveness. However, the academic literature argues that Board effectiveness is dependent on the company's managerial characteristics and the type of industry in which the company operates

Overall, the research findings were in line with current academic literature on what constitutes Board of Director best practices in the ICT sector.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter summarizes the findings of the conducted research. The chapter then provides recommendations to stakeholders pertinent to the conducted research. Finally, the chapter concludes with suggestions for further research in the area of best practices for Board of Directors in the ICT sector.

6.2 Conclusions of the Study

Good corporate governance is essential for proper management and oversight of any company beyond the ICT sector. In instances where governance has proved to be effective, it has been accompanied by positive operational and stock market performance. Shareholders and Investors are deemed to benefit from a company with good corporate governance in place. In addition, shareholders and investors would also express greater confidence in a well governed company, which in turn creates a sustainable atmosphere of growth and performance.

Given the complexities of today's global business environment especially in light of the recent financial crisis and a number of corporate failures, it is important for Boards of Directors to understand all the elements, including best practices, that determine effectiveness so that companies remain competitive and relevant in the industries in which they operate. Henceforth, Boards of Directors including those in the ICT sector are under enormous pressure and attention to inspire confidence in business systems and provide a stable framework for governance and growth in companies.

This research report has, therefore, identified a number of best practices required by Boards of Directors that sit on listed ICT companies which will equip them to gain and maintain a competitive advantage. The research

findings were mostly in line with what is currently purported by academic literature. The main findings of this research can be summarised as follows:

- Boards of Directors in the ICT listed companies understand and support the notion that good corporate governance is an essential best practice for Boards of Directors in order to build shareholder and investor confidence

- Boards of Directors in the ICT listed companies have clearly defined roles and functions

- In most ICT listed companies, non-executive and independent directors constitute the majority of Boards of Directors

- Boards of Directors in the ICT listed companies are proponents of constructive conflict on the Board and perceive it as a crucial best practice

- The majority of ICT listed companies have a number of Board committees on their Boards. These companies view the presence of Board committees as an important step towards achieving Board effectiveness

- Boards of Directors in the ICT sector are constantly trained and developed on the latest best practices in Board governance. This has assisted Boards of Directors in the ICT sector to effectively execute their roles

- Boards of Directors in ICT listed companies have good working relations with their management

- Boards of Director in ICT listed companies mostly have diversity on their Boards. Board diversity was seen as one of the most crucial best practices

- Governance best practices in the listed ICT companies were found

to be similar to those of other sectors

There were, however, two differences between the academic literature and the research findings. These marked differences were mainly on issues of Board size and CEO and Chairman Duality. One could perhaps attribute the differences to the fact that the South African business landscape is informed by specific codes of best practices which are advocated by the King Reports, among others. In addition, the best practices identified by the research report will be useful to Boards of Directors in the ICT sectors that are looking to increase and maintain Board effectiveness notwithstanding meeting stakeholder expectations.

It is, therefore, in the best interests of Boards of Directors in the ICT sector to adopt the identified best practices in order to assist them to build sustainable and effective Boards.

6.3 Recommendations

Boards of Directors in ICT listed companies are in a difficult position as they have to ensure that their Boards are well functioning to enable their companies to remain sustainable in the long term. There are a number of best practices that have been identified by this research which can, arguably, assist Boards of Directors in listed ICT companies to better execute their roles. These best practices, which should be adopted by all firms in the ICT sector include:

Good Corporate Governance

- Ensure that Boards of Directors understand the benefits of good corporate governance
- Boards of Directors in ICT listed companies should not view corporate governance as merely a compliance issue but rather as a mechanism that will help them achieve a sustainable atmosphere of growth, good operational and stock market performance

Roles and Responsibilities of the Board

- Boards of Directors need to be made aware of their roles, deliverables and responsibilities. This is essential for the proper functioning of a Board as a whole

- In addition, it is imperative for ICT listed companies to provide continuous refresher sessions for all Boards of Directors which also cover new changes in laws and best practices

CEO and Chairman Duality

- The roles of CEO and Chairman need to be separated. Separation of duties contributes to greater effectiveness of the Board and it strengthens oversight of the company and accountability

- Independence of the Chairman and CEO ensures objectivity on the Board

- In addition, CEO and Chairman duality is one of the best practices recommended by King III. It is therefore in the best interest of ICT listed companies to adhere to this best practice

Board composition and Structure

- Ensuring independence of a Board is equally important in order to achieve maximum effectiveness and accountability. The independence of the Board can therefore be achieved and maximized by ensuring that the majority of directors are non-executive and independent

- Boards in the ICT sector should ensure a majority of non executive and independent directors as this enhances strategic debate and discussion on the Board

Board Size

- Board size should be relatively small. It is important to have just

enough directors covering the skills and experience base required for proper performance of its duties

- A smaller Board is also easier to coordinate and allows for every Board of Director's opinion to be heard and assessed

Board Processes

- Efficient Board processes are critical in creating a climate of productive director participation in the business of the Board.

- A good Chairman is equally important, one who can facilitate robust engagement and have the ability to manage constructive conflict

- Boards of Directors in the ICT listed companies need to benefit from views that are constructive

Board Committees

- It is good best practice to have Board committees that are specialized on specific Board duties by fewer, more relevant skilled directors. This will result in more efficient and more productive outcomes

- Board committees are critical in ensuring that Boards of Directors are conversant with what is actually going on in a company from a liability point of view

Relationship between Board of Directors and Management

- A good relationship between the Board and management is crucial for the effectiveness of the Board as management is mostly concerned with the daily activities of the business and the Board depends on management for execution of decisions and provision of information

Board Diversity

- Diversity should be adopted by all Boards in the listed ICT companies as it improves effectiveness. More importantly, it is good for competitive advantage

Adoption of best practices should not be seen as a compliance obligation but rather as a means to not only creating effective, well functioning Boards, but also as a means to ensure sustainable company performance and success.

6.4 Suggestions for Further Research

There were a number of limitations that were experienced during the course of this research, which created more questions than answers for the researcher. Henceforth, this provided a gap for further research in this field. Possible further research could look into the following:

- So far, there has been no concrete model that has linked Board performance to Board effectiveness, there are documented best practices but there is no formal model that links these practices to a formalized model. There is therefore scope for such a model to be developed in future

- The South African business environment is generally different from that of Europe and the USA. Henceforth, a majority of documented literature on the subject of best practices has been informed by the Europe and USA experience. It would therefore be advisable that more Board and governance research as it relates to the South African context be carried out

- A model that captures the effect on a company's financial performance once they have adopted best practices

- Exploration of best practices of other sectors and seeing if there are any commonalities with the ICT sector

Future research could certainly make use of the best practices that have been documented in this research in order to continue adding to the body of knowledge in this area.

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APPRENDIX A

Letter to Respondents

Dear Respondent,

I am completing my MBA at the University of the Witwatersrand, Johannesburg (Wits Business School). As part of my degree I am writing a research report on effective Boards of Directors of JSE listed companies in the ICT sector in South Africa. Towards gathering data on this subject, I would be grateful if I could arrange a one hour interview with you to understand your Board of Directors experience at your company. I understand that you are extremely busy and your agreement to contribute to my research is greatly appreciated.

The interview will primarily focus on your experience as a Board Member of an ICT company and the characteristics needed to ensure Board effectiveness in such companies. Confidentiality will be observed throughout the research process and the final report will be for academic purposes only.

I will be able to meet you at a location and time of your convenience.

Thank you for your kind assistance.

Yours sincerely,

Rita Sikhondze

Contact number: +27 82 769 1846

APPENDIX B

Actual Research Instrument

Semi structured Interview Questions:

Question 1

What are your views on good corporate governance where shareholder and investor confidence are concerned?

Question 2

Do Boards of Directors on your Board have clear guidelines on what their role and responsibilities are on the Board?

Does that have any effect on how the Board functions?

Question 3

What are your thoughts on CEO and Chairman duality?

Would you argue that there is a direct correlation between CEO and Chairman duality and Board effectiveness?

Question 4

What is the split between non-executive and executive directors?

Does the split have any effect on Board effectiveness?

What numbers of outside and executive directors would you say is optimal to ensure that a Board functions successfully?

Question 5

What is the size of your Board?

Would you say that the size of a Board affect the performance of the board? If yes, how?

What in your view would be the optimum size of a Board?

Question 6

Would you say that Board processes were efficient?

Does constructive conflict amongst Board members make a Board more effective? If yes, how?

Question 7

Does your Board have Board committees?

If yes, how would you say Board committees affect Board effectiveness?

Question 8

Are Board recruitment and Board development programmes prominent on your Board?

If yes, how would you say this affects the way in which the Board functions?

Question 9

How would you describe the relationship between the Board of Directors and the company's management?

How has it affected Board effectiveness?

Question 10

Please describe diversity on your Board and how that has affected the Board's performance

Question 11

Would you argue that Board best practices in the ICT sector would be different from those of other sectors? If yes, how?

Please list any other best practices that may have not been covered by the aforementioned questions.

APPENDIX C: LIST OF RESPONDENTS

1. **Paracon Holdings Ltd**

   Non executive director

   Non executive director

2. **Data centrix**

   Independent director

   Independent director

3. **Vodacom Group (Pty) Ltd**

   CEO Vodacom-DRC

   Company Secretary

4. **Altech**

   Independent Non Executive Director

   Altech Motomo-Technical Director

5. **Telkom**

   Non executive Director

   Non executive Director

6. **MTN Group**

   Consultant Company Secretary

7. BCX

CEO

8. Gijima AST

Non-executive Director

Non-executive Director

BEST PRACTICES OF BOARDS OF DIRECTORS OF JSE LISTED COMPANIES IN THE ICT SECTOR IN SOUTH AFRICA

Rita Sikhondze

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

Johannesburg, October 2010

ABSTRACT

The purpose of the research was to determine the best practices needed by Boards of Directors of JSE listed companies in the Information and Communication Technology (ICT) sector in South Africa. The best practices were solicited with the aim of assisting Boards of Directors in ICT listed companies in South Africa to ensure that their Boards function effectively and optimally. In the process of conducting this research, best practices of Boards of Directors in the ICT listed companies were identified.

An academic literature review was compiled with the aim of exploring existing academic literature and applying it to the main research problem that was being investigated. The literature review established a number of best practices needed by Boards of Directors in ICT listed companies. These best practices included, but were not limited to: the importance of good corporate governance, Boards of Directors having clear guidelines on their roles and responsibilities, CEO and Chairman duality, Board composition, Board size, efficient Board processes, presence of Board committees, the relationship between management and the Board, Board diversity and Board recruitment programmes.

The research employed an interpretive analysis as part of the qualitative methodology. 14 in-depth interviews were completed with Boards of Directors in ICT listed companies. Interviews were transcribed and content analysis was performed in order to generate recurring themes.

The research was able to establish and validate a number of propositions formulated in the literature review. The validated propositions included the following:

- Effective Boards of Directors have clarity of their roles and responsibilities on the Board
- Best practice dictates that there should be separation of CEO and Chairman duality

- Boards should comprise a majority of non-executive directors as it ensures effectiveness and accountability
- Small Boards are advisable as there are easier to manage and they function more effectively than larger Boards
- Efficient Board processes and constructive conflict on the Board facilitate a climate of productive director participation
- Best practice in corporate governance dictates that Boards should have specialized committees on the Board
- In order to optimize Board effectiveness, it is important that there exist Board recruitment and development programmes
- A strong, positive relationship between the Board and management will ensure that the Board functions effectively
- Diversity is important for all Boards for improved effectiveness

The key message is that it is in the best interest of ICT listed companies to adopt and conform to the best practices identified in this research as this will ensure Board effectiveness, and sustainable growth and performance.

DECLARATION

I, Rita Sikhondze, declare that this research report is my own work except as indicated in the references and acknowledgements. 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.

…….
Rita Sikhondze

Signed at ……

On the …….. day of …… 2010

DEDICATION

TO MY HUSBAND AND DAUGHTER: SIBONISO AND SETSABILE MKHABELA AND MY PARENTS: PHETSANI AND MACLEAN SIKHONDZE.

ACKNOWLEDGEMENTS

I would like to express my sincere thanks and gratitude to:

- My supervisor, Mark Peters, for his continued encouragement and invaluable guidance throughout the research process
- My family, in particular my husband and daughter for the continued support throughout the MBA. I would also like to thank my parents and sisters for their unwavering support
- All the respondents who participated in the interview process for offering their time and invaluable insights. Their contribution to this research is highly appreciated

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to determine the best practices needed by a Board of Directors of JSE listed companies in the Information and Communication Technology (ICT) sector in order for them to function optimally.

The report established the best practices that should be adopted by a Board of Directors in the ICT sector as a benchmark of corporate governance. In addition, the research intended to provide a framework to help Board of Directors to be more effective in running boards in the ICT sector. The best practices can be used as a tool for evaluating what the Board does, and how it does it. The best practices are also useful in the selection, induction, training and development of Board of Directors. Furthermore, the best practices can be considered as a toolkit for Board of Directors in the ICT sector.

1.2 Context of the study

Board effectiveness is increasingly becoming a topical issue. To that end, best practices in the form of Board inputs, structures and processes have a major influence on Board effectiveness. A number of process variables and best practices have to be in place in order to achieve Board effectiveness. These variables include but are not limited to: Board members having the time, skills and experience to do the job; clear delineation of Board roles and responsibilities; the ability for Board of Directors and management to share a common vision of how to achieve their goals; and a periodical review of how the Board and management work together (Conforth 2001).

Coombes and Watson (2002) identified an effective Board of Directors as one that involves a combination of the right people, appropriate structure

and the right processes. Finkelstein and Mooney (2003) in their study found that:

> "…board process likely has a very real and important impact on overall board effectiveness and even firm performance. Board members readily acknowledge the centrality of process when asked how boards really operate. They see process issues as central not just to how they function as a group but to their ability to act independently of the CEO." (Finkelstein and Mooney 2003: 13)

Against this backdrop, a Board of Directors in the current business environment faces a unique set of responsibilities and challenges (OECD 2008). Henceforth, in order to fulfil this complex role and to ensure board effectiveness, a Board of Directors needs to be equipped in certain areas of knowledge and personal characteristics including best practices, which was largely the aim of this research.

> "It is board effectiveness not board structure that must be analyzed, for it is effectiveness of the board in the decision-making process that in the final analyses determines corporate performance." (Leblanc and Gillies 2003: 4)

Corporations work within a governance framework. The framework is normally set by a country's laws and by a corporations' constitution. In effect:

> "The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders." (OECD 2008: 16)

In the South African context, listed firms are expected to adhere to certain codes and regulations as purported by the King Reports on Corporate Governance. In order to conform and adhere to international standards, South Africa published the King Report on Corporate Governance (hereafter referred to as King I) in 1994 as a means to promote corporate governance. This was then followed by an updated version in 2002

(hereafter referred to as King II) which was meant to help Boards of Directors to adhere to a changing legislative environment.

In effect, the complexity of today's large companies including the ones in the ICT sector demands that Board of Directors are in possession of certain attributes and best practices in order to understand the intricacies of their role. This is due in part to the fact that:

> "During this time of rapid change in the commercial, economic and legislative environments internationally, the need to address the extent to which such evaluations contribute to board effectiveness is significant." (Van der Walt and Ingly 2001: 331)

In order to remain relevant in the global business landscape, South Africa launched the King III Report (hereafter referred to as King III) in September 2009). King III (2009) became necessary because of the anticipated Companies Act including the evolving international trends.

> "The new Companies Act codifies the standard for directors' conduct and regulates the liability of directors where the standard is not met. Directors are obliged to act in good faith, in the best interest of the company and with the required level of skill and diligence… In contrast, there is no statutory obligation on companies to comply with King III. The underlying intention of King III is not to force companies to comply with recommended practice (King II required companies to 'comply or explain'), but rather for companies to 'apply or explain'. …As directors can be held personally liable for non-compliance with their statutory duties as set out in the Companies Act, they need to ensure that each and every decision is taken with care." (Deloitte 2009: 1)

King III (2009) has further broadened the scope of corporate governance for South African Boards of Directors with emphasis on leadership, sustainability and corporate citizenship. The King III (2009) report has identified principles for corporate governance for listed companies. The

principles cover but are not limited to: 1) the fact that good governance is essentially about effective leadership. Boards of Directors need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour with regard to sustainable performance; and 2) Sustainability is now the primary moral and economic imperative and is one of the most important sources of both opportunities and risks for businesses.

However, as much as the King Reports have identified codes and best practices for corporate governance, this is not enough. Companies may find it easy to comply with stipulated codes such as those purported by the King Reports, but that does not mean that companies are well governed. **These are merely minimum requirements** (Bradley 2004). This, therefore, warrants the need to further identify best practices that ensure optimal functioning of Boards of Directors.

The impact of failures and weaknesses in corporate governance due to the recent financial crisis (Kirkpatrick 2009) and the high profile collapses of major global businesses such as Enron, Tyco, Adelphia and WorldCom (Sonnenfeld 2002) have increased the need for Board accountability and shareholder responsibility. In essence:

> "Understanding the nature of effective board functioning is amongst the most important areas of management research on the horizon." (Forbes and Milliken 1999:502)

The context of this research therefore encompassed setting a number of best practices needed for Boards of Directors to meet the increasing demand of stakeholders wanting to see a demonstration of effectiveness in the Boards they serve. In addition, pressures for Board of Directors' competencies have been prevalent in the listings of directors' stock exchanges such as the JSE.

Given the increasing dynamics of the global economy, it is important that Boards of Directors in the ICT sector are well positioned to assist their respective organizations to adapt to an increasingly changing political,

social, economic and regulatory environment.

1.3 Problem statement

1.1.1Main problem

Determine the best practices of an effective Board of Directors in the ICT sector of JSE listed companies in South Africa.

1.4 Significance of the study

Boards of Directors are meant to be the focal point of corporate governance and are expected to provide the overall leadership of an organization. Henceforth, “the need for a better understanding of all elements that determine board effectiveness” (Van Den Berghe and Levrau 2004:461) is paramount for competitive advantage.

From an investor’s perspective, it appears that issues of corporate governance have taken centre stage, among other issues. According to Coombes and Wong (2004) in a McKinsey and Company survey:

- At least 80% of investors are willing to pay a premium for well governed companies;
- Governance has major influence on investors’ decision making;
- More importantly, around 60% of investors do not invest in corporations that do not demonstrate sound governance principles

In addition, the Commbes and Wong survey (2004) identified best practices such as increased focus on Board professionalism and more intensive scrutiny of governance as important contributors to Board effectiveness. Hence, the significance of this research.

In light of corporate failures and the recent financial crisis, Boards of Directors are under enormous pressure and attention:

> "There has been chronic loss of trust in the world's systems and institutions. Company boards must vanguard of the effort to win back the confidence of customers and investors alike. A well-balanced board is central to the effective strategic direction and running of any company. Good governance and leadership will help rebuild confidence in our business systems, providing a stable framework for sustainable growth." (Heidrick and Stuggles 2009:3)

In that sense, the research was significant in that it identified the best practices required by Boards of Directors that sit on listed ICT companies in order for them to gain and maintain a competitive advantage in an increasingly competitive global market. In addition, the rationale behind this research and its significance, specifically its focus on the ICT sector, was that the ICT sector is not a well documented sector. The research therefore enhanced the body of knowledge in existing Board of Directors literature. Finally, the study set out a number of recommendations to be used by Boards of Directors in the ICT sector that are looking to increase and maintain Board effectiveness, and meet stakeholder expectations.

1.5 Delimitations of the study

The research focused on JSE listed companies in the ICT sector. The research did not include Alternative Exchange companies and non-listed companies.

Given the nature of the study in terms of understanding Board activity, the researcher foresaw a challenge in obtaining objective responses from Boards of Directors who were approached. A convenience sample of 14 South African Boards of Directors of ICT companies listed on the JSE perceived to be experts in Board processes were identified, contacted and interviewed.

1.6 Assumptions

The following were the underlying assumptions when the research was conducted:

- The respondents that were selected were be conversant enough about the King reports and their perceptions on best practices of a Board of Directors
- The identified individuals were willing to share information objectively and honestly where Board effectiveness is concerned
- The respondents' views were be representative of the industry in which they operate
- Compliance with all the King reports did not necessarily mean that companies were well governed nor effective Boards of Directors
- There was an expectation that some of the best practices purported by respondents only applied to the South Africa business environment

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The literature review chapter focuses on the key themes of relevance to the study by identifying the best practices that make Boards of Directors effective. The literature review provides a background discussion. This will be achieved by giving an overview of the importance of corporate governance. A theoretical review on agency theory is then explored.

Functions of the Board and Corporate Governance Mechanisms are addressed in this section. In addition, the literature review also discusses other relevant themes as they relate to best practices of an effective Boards of Directors such as the relationship between Boards and Management, Board Diversity and Board Development. The chapter also looks at Board best practices in the ICT sector. The chapter concludes with an overview of key learnings based on the literature review.

2.2 Background discussion: The Importance of Corporate Governance

Corporate governance, and in particular the role of Boards of directors, has been become a topical issue in recent years. The way in which Boards of Directors perform has become a concern in many parts of the world. This is largely attributed to the numerous corporate scandals that have taken place such as Worldcom and Parmalat.

As a result of these scandals and mounting concern about corporate governance, Boards of Directors and their effectiveness have been at the centre of policy debate and academic research where corporate governance reform is concerned (Adams, Hermalin and Weisbach 2009). Henceforth, the perceived problematic nature of corporate governance

has resulted in growing literature on Board effectiveness (Conforth 2001). Thus, corporate governance has increasingly become a very important phenomenon in a radically changing globalized world (Rosenstein and Wyatt 1997).

Good governance ensures the effective performance and sustainable value of companies. According to Klapper and Love (2004), good corporate governance is highly correlated to operating performance and market valuation. In effect, this will protect and enhance shareholder and stakeholder value. Good corporate governance is rewarding to those companies that effectively practice it and investors are willing to pay a premium for good governance.

> "In theory, [good governance] should increase the market valuation of companies by improving their financial performance, reducing the risk that boards will make self-serving decisions, and generally raising investor confidence. Indeed, surveys suggest that institutional investors will pay as much as 28 percent more for the shares of well governed companies in emerging markets" (Newell and Wilson 2002: 20).

Newell & Wilson (2002) further suggested that a number of factors contribute to good corporate governance. These factors include but are not limited to transparent ownership, Board size and broad, timely, and accurate disclosure. The study conducted by Newell & Wilson (2002) under the auspices of Mckinsey and Company discovered that:

- Companies in emerging markets namely: India, Malaysia, Mexico, South Korea, Taiwan and Turkey which were tested against the link between market valuation and corporate governance practices, expected a 10 to 12 percent increase in market valuation due to their corporate governance characteristics
- Improving corporate governance could be a strategy for outperforming competitors in financial markets

- Essentially, investors are looking for high standards of corporate governance and they are willing to pay high premium in companies that adhere to them

- Therefore, best practices of good corporate governance are crucial to the value of companies

In light of the above, Boards of Directors are finding it more challenging to determine the best decisions for their companies and stakeholders. Henceforth, identifying Board of Directors best practices which are associated with Board effectiveness is crucial. To that end, a study on conducted by Dulewicz, MacMillan and Herbert (1995) on UK Corporate Boards found that Boards of Directors who wish to enhance their effectiveness need to consider three areas:

- Organizational processes for managing the Board

- Competencies of Boards of Directors and tasks that need to be performed

- The processes required for organizing and running a Board effectively

The practice of good corporate governance is therefore crucial as it ensures investor confidence and enhances company performance and accountability. However, it appears that:

> "In many companies no one is focusing on the competence of the board or the effectiveness of its members; yet at the same time, a growing burden of legal duties and responsibilities is being placed on the shoulders of directors" (Coulson-Thomas 1994: 29)

In effect, the best practices needed by Board of Directors are never made explicit. Hence, identifying the best practices that will ensure effectiveness of Boards of Directors is imperative.

Proposition 1: Good practice in corporate governance is essential in

building shareholder and investor confidence.

2.3 Agency Theory in Corporate Governance

There is limited organization and management literature available on the theoretical nature of corporate governance. Most of the research that has been done in this area has mainly focused on the Board's external role rather than its internal governing role. However, outside organization and management literature, corporate governance has been studied in agency theory (Kosnik 1987).

Agency theory forms the basis of theoretical background for corporate governance. Agency theory has had a major impact in reforming corporate governance best practices. The theory can be defined as the relationship between management and shareholders.

> "As applied to corporate governance, it is the shareholder who is cast as the 'principal' and the problem, following the separation of ownership and control, is how the principal can ensure that his 'agents'-company directors-serve the shareholders interests rather than their own" (Roberts 2004: 2)

Also inherent in the agency theory is the importance of ensuring that the agents' behaviour is conditioned by incentive structures which are incorporated in the contract (Kosnik 1987).

Agency problems arise when managers (agents) may not act in the best interest of the company or its shareholders especially in cases where control of the company is separate from its ownership and the agents do not feel that they own an equity stake in the business (Bonazzi and Islam 2007). Boards of Directors are there to solve some of the agency problems inherent on managing an organization (Hermalin and Weisbach 2003).

Henceforth, agency theorists have focused their research on identifying optimal mechanisms that will ensure attaining the best interests of

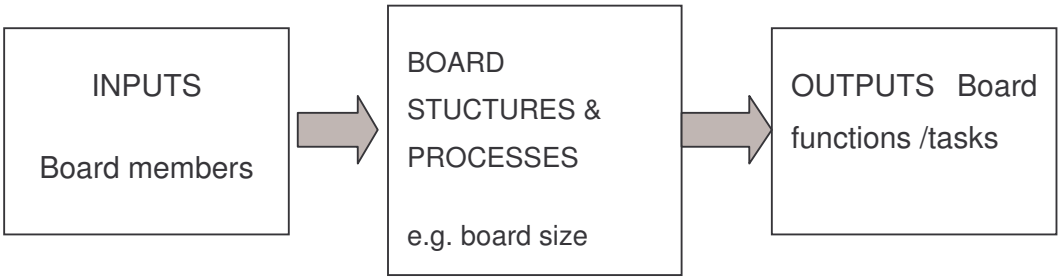
shareholders. Against this backdrop, agency theorists have identified a Board of Directors as one of the best alternatives to monitor and control management and to avoid agency problems (Kosnik 1987).

2.4 Conceptual Framework

In order to fully appreciate the best practices of an effective Board of Directors, a conceptual framework would assist in bringing clarity on Board effectiveness and the factors that influence it (Cornforth 2001). The input-output framework below is a based on a study on Standards of Good Practice for UK Boards of Directors conducted by Dulewicz, MacMillan and Herbert (1995).

Nicholson and Kiel (2004) argue that in order to have an appreciation of the best practices needed for Board effectiveness; one would have to have a conceptual framework:

> "Understanding how these factors interact requires a range of tools. The conceptual framework or model is a key tool, because it indicates which factors (in the board, for example) are central to the topic of interest. A framework also highlights how these factors are related to one another or which factors (or combination of factors) will cause changes to others. Thus, developing an understanding of how boards work requires a holistic framework to guide investigations. Models of how boards work are central to corporate governance research" (Nicholson and Kiel 2004: 4).



** Source (Conforth 2001)*

Figure 1: Conceptual Framework Diagram

As illustrated by Figure 1, the inputs are time, skills and experience of Board of Directors which are transformed into outputs through the board's structures and processes. Outputs include strategy and policy formulation, stewardship Board maintenance, among others (Cornforth 2001).

2.5 The Role of the Board of Directors

The role of a Board of Directors is vital in regulating corporate activities. More often than not, Board of Directors are relegated to making decisions which pertain to the hiring and firing of CEOs, setting strategy and selection of projects (Hermalin and Weisbach 2003).

> "On an ongoing basis, boards have to ratify many decisions put to them by the CEO. These decisions focus on three broad topics-running today and reporting performance, building tomorrow, and dealing with regulators, investors and other stakeholder groups" (Dowling 2006: 60)

Mace (1986) attests that the role of a Board of Directors is to serve as a sounding board for the CEO and management and to occasionally provide expertise when needed. The role of a Board of Directors has continued to evolve over time. MacAvoy and Millstein (1999) in their statistical study found that Board of Directors were now active and independent monitors as opposed to being managerial rubber-stamps.

In addition, Wan and Ong (2005) continue to assert that Boards of Directors have increasingly become accountable for the companies they lead, with some recent instances of Boards of Directors ending up in court and found personally liable for huge amounts of money.

In the context of the South African business environment, King III (2009) has identified roles and functions of a Board of Directors:

- The Board is a focal point for corporate governance
- The Board needs ensure that the company is a good corporate citizen
- Boards of Directors needs to cultivate an ethical corporate culture
- The Board of Directors needs should manage strategy, risk performance and sustainability as inseparable matters
- Boards of Directors should consider sustainability as a business opportunity
- Boards of Directors should act in the best interests of the company in which they serve
- Boards of Directors should effectively manage conflicts of interest
- Effectiveness of internal financial controls should form part of a Boards of Directors responsibility
- Boards of Directors are responsible for dispute resolution and effective compliance
- Boards of Directors need to ensure that rescue proceedings are instituted as soon as the financially distressed nature of the company becomes evident

According to Garret (1996), the main functions of the Board of Directors includes selecting and monitoring of the CEO, developing strategy, setting the organization's mission, approving policies and budgets and ensuring

that the company has adequate resources to perform its duties. In fact,

> "Much of the research on Boards ultimately touches on the question "what is the role of the Board?" Possible answers range from Boards' being simply legal necessities, something akin to wearing wigs in English courts, to their playing an active part in the overall management and control of the corporation. No doubt the truth lies somewhere between these extremes; indeed, there are probably multiple truths when this question is asked of different firms, in different countries, or in different periods" (Adams, Hermalin and Weisbach 2009: 1).

Kula (2005) identified the role of a Board of Directors as the most important and frequently used supervisory mechanism for management actions. Boards of Directors therefore play a pivotal role in maintaining an effective organization. The effectiveness of a Board of Directors is dependant "on the competency of the board to carry out its functions." (McGregor 2000: 175).

Proposition 2: Boards of Directors have a clearly defined understanding of their roles and functions.

2.6 Corporate Governance Mechanisms

2.6.1 CEO and Board Chairman Duality: Separation of Roles

The term duality refers to a Board structure where the CEO of a company also acts as the Chairman of the Board (Fahlenbrach 2009). The duality of CEO and Chairman of the Boards holds true in a number of firms (Rechner and Dalton 1991).

This structure has not been widely supported as it is viewed as transferring too much power in the hands of the CEO (Jensen 1993). This is seen as reducing the Board's ability to influence decisions and the fulfilment of governance duties. Core, Holthausen and Larcker (1999) further point out that when CEO and Board duality is in place, the

likelihood of agency problems is increased.

On the other hand, the proponents of CEO and Board Chairman duality (Brickley, Coles and Jarrell 1997 and Adams et al 2009) argue that combining or separating titles does not have a direct impact on Board effectiveness nor on a company's performance. Furthermore, Dalton and Dalton (2005) found that there is no consistent research which demonstrates a link between CEO and Chairman duality to financial performance and therefore is not a need for duality independence.

Although, separation of the CEO and Chairman role can create structural independence. It is argued that:

> "Even if it is true that combining the titles of CEO and Chairman means that an individual has, on average more influence over his firm, it does not follow that mandating separate titles would improve corporate performance …measures of CEO power are not systematically related to firm performance" (Adams et al 2009: 27).

A Heidrick and Struggles (2009) study which presented findings of 768 directors at 660 of the 2000 largest publicly listed traded companies in the United States of America (USA), found that 30% of the Boards have a non-executive Chairman. This was a significant increase from 2003 where 16% of the firms had a non-executive Chairman.

In light of the above divergent views, the South African King III (2009) report states that the Chairman of a Board should be an independent non-executive director. This implies that the roles of both the CEO and Chairman should be separated. Dalton et al (2005) further recommend that some companies may appoint a lead director who is selected from a pool of independent directors. This would help in terms of checks and balances and would give the Board a sense of integrity that it is an independent Board system.

Proposition 3: CEO and Chairman duality is not directly correlated to firm performance and board effectiveness. Henceforth CEO and Chairman duality should be a Board's prerogative.

2.6.2 Board Composition and Structure

Singh and Davidson III (2003) point out that Board composition and structure largely influence Board effectiveness. Board composition in this context is referring to the difference between executive directors (internal to the company) and independent directors (external to the company). Board structure refers to how the board is organized to execute its work. Board composition and structure should ideally align with the organization's strategy and business model so that a Board of Directors are equipped enough to deal with any challenges that the company is likely to face.

The demarcation of roles between internal and external directors is as follows:

> "Inside directors are better informed regarding the quality of firm investment projects proposed by the CEO, but outsiders can use CEO succession to motivate insiders to reveal their superior information. Board structure affects the flow of information and the effectiveness of the corporate board in replacing inferior projects with superior ones. The optimal board structure is determined by the tradeoff between maximizing the incentive for insiders to reveal their private information, minimizing the cost to outsiders to verify projects, and maximizing outsiders' ability to reject inferior projects." (Raheja 2005: 2)

Heidrick and Struggles (2009) established that:

- Board composition is constrained by issues such as director tenure limits, age limits and restrictions on serving on other boards

- Boards structure is constrained by stock exchange regulations, in the South African context, this would be the Johannesburg Stock Exchange (JSE)

- Given the above limitations, recruiting for effective Boards of Directors has become increasingly difficult

Wan and Ong (2005) state that Board structure and company performance have been a major interest of academic literature. However, most of the literature has not come up with a conclusive relationship between the two variables.

Furthermore, Hermalin and Weisbach (2003) state that research in this field has thus far discovered a number of empirical regularities. These regularities include the fact that Board composition and structure as measured by the insider-outsider ration is not correlated to company performance. In addition, Board actions are related to Board characteristics. This means that firms with a higher proportion of independent directors tend to make better decisions than the converse situation.

Anon (2009) states that a Spencer Stuart Board Index (SSBI) study of S&P 500 found that Board composition and structure had significantly changed in the past ten years. In fact,

> "The last decade has been dramatic for board independence. In 1998, the CEO was the only insider on 23 percent of boards. Today the CEO is the only insider on 44 percent. A total of 36 percent of boards reported lead or presiding directors in 2003, compared with 95 percent today" (Anon 2009: 27)

Clearly, the dynamics of Board composition have increasingly evolved in most recent years. Dalton and Dalton (2005) further attest that there is a large body of research on the impact of Board composition in relation to board effectiveness. Most Boards are now usually composed of independent Boards of Directors (Gillette, Noe and Rebello 2003). This mechanism normally protects a company from the dominance of key

management.

However, Gillette et al (2003) continue to point out that the role of outside Boards of Directors has received mixed results as far as the types of Board characteristics that facilitate effective monitoring and improved governance are concerned. King III (2009) advocates for non executive Boards of Directors constituting a majority of the directors on the Board. This implies that non executive directors are perhaps perceived to add a lot of value and they act as guardians of shareholders' interest.

Proposition 4: Non-executive and independent directors should constitute most of the Board of Directors in order to ensure Board effectiveness.

2.6.3 Board size

As corporate Board reform is at the centre of means to improve Board effectiveness and corporate governance in general, policy arguments have advocated that Board size is one of the characteristics that can improve Board performance. An empirical study that was done by Boone, Casares, Field, Karpoff and Rajeja (2007) established that:

> "Overall, however, the data reject the view that boards systematically are randomly or perversely structured. Rather, corporate boards appear to be adapted to the particular nature of the firm's competitive environment and managerial team. Such environment-specific adaptation undermines the view that board performance generally can be improved by imposing uniform rules on board size or composition" (Boone, Casares Field, Karpoff and Raheja 2007: 30).

Hermalin and Weisbach (2003) in their empirical study of corporate Boards discovered that the number of directors is negatively related to a firm's financial performance. However, it is not clear whether their findings can be used to make same inference about Board effectiveness. Newell and Wilson (2002) argue that there is an appropriate number of Board

seats and that studies suggest that the optimal number is approximately five to nine members. This implies that the smaller the Board, the more effective it becomes. Larger Boards can make the whole process of decision-making long and cumbersome.

An overview of past empirical literature on the effects of Board size on Board effectiveness is depicted on the adapted information reflected in : **Table 1** below:

Table 1: Overview of Past Literature on Board Size

	Sample	Board size	Findings
Yermack (1996)	Panel of 452 large US firms (1984-1991)	4 to 34 Mean: 12.25 Median: 12	• Significant negative effect of board size • Smaller boards fire CEOs more frequently • CEO compensation less, performance dependent if board size is large
Eisenberg, Sundgren and Wells (1998)	785 small Finnish firms (1992-1994)	Mean: 3.7	• significant negative effect of board size • Bad performance implies larger board changes
Postma, van Ees amd Sterken (2003)	94 Dutch firms (1996)	Mean 4.95 Median: 5	• negative board size effect

** Source: (Beiner, Drobetz, Schmid, Zimmermann and Street 2004).*

As illustrated by the table 1 above, the past literature does not seem to come up with any conclusive details on whether there is an optimal Board size that would ensure Board effectiveness. Raheja (2005) argues that proxy statements have provided evidence that Board size should depend on the type of company.

Boone et al (2007) tracked corporate Board development from the time of a company's initial public offering (IPO) through ten years later. The results indicated that Board size and independence increase as companies grow in size and diversify. In addition, Board size and independence are influenced by a combination of firm specific and managerial characteristics.

Beiner, Drobetz, Schmid, Zimmerrmann and Street (2004) found that the size of a Board of Directors is an independent control mechanism and did not find a significant relationship between Board size and firm valuation. Kula (2005) states that larger Boards are more capable of monitoring actions of top management and this reduces the ability for CEOs to dominate the Board. Lager Boards are also able to draw from a wealth of experience. However, larger Boards are laden with disadvantages such as the inability to control management and could be deemed dysfunctional from a strategic making perspective.

Beiner et al (2004) established that larger Boards had the disadvantages of coordination, communication and decision making problems. It appears therefore that there are varying arguments about what constitutes an optimal Board size and whether size matters where Board effectiveness is concerned.

Despite the varying views on the role of Board size in ensuring Board effectiveness, the average Board size has converged over time. According to Anon (2009), approximately 75 percent of Boards have between nine and 13 directors, which represents a major increase from 66 percent in 1998. Heidrick and Struggles (2009) in their annual survey on Board effectiveness found that the average size of Boards was 10.4 members.

Proposition 5: Board size's influence on Board effectiveness is dependant on the company's managerial characteristics and the type of industry in

which the company operates.

Proposition 6: Smaller Boards are arguably more effective in terms of coordination of meetings, communication and decision-making tasks.

2.7 Board Processes

Board process refers to the decision making activities of directors of companies, styles of the Board, the frequency and the length of the Board proceedings, the use of formal procedures to evaluate both Board and management and Board culture (Kula 2005). The literature on Board processes has been limited, until recently. This is mostly attributed to the difficulty of gaining access to Boards.

The need to study Board processes emanates from that fact that Board effectiveness depends on strong internal processes in conjunction with a solid structure and substantive content (Wan and Ong 2005). In fact, “the key to making boards work better rests in an area largely ignored by researchers: board process” (Finkelstein and Mooney 2003: 101).

The importance of Board reform lies in ensuring that processes such as more preparation for Board meetings, more debate, less personal conflicts are encouraged and in place. For example, meeting agendas should be sent to Boards of Directors ahead of time so that they are well prepared. This has also allowed directors to better monitor company performance and to discuss the company’s strategic plans (Wan and Ong 2005).

Conflict on the Board has also been another area of consideration. It has been noted that conflict can be good, as it allows for Boards of Directors to take a more careful evaluation of alternatives and could produce higher quality of strategic decisions. Conflict is also an important determinant of Board effectiveness (Finkelstein and Mooney 2003). Furthermore, Frankelstein and Mooney (2003) posit that Board effectiveness requires goals such as engaging in constructive conflict, working together as a

team, knowing the appropriate level of strategic involvement and addressing decisions comprehensively, to be realized.

Kula (2005) studied the impact of Board processes on firm performance in Turkey and discovered that:

- Board access to information is positively associated with performance
- Perceived effectiveness of Board meetings, frequency of meetings, relative effectiveness of board over top management, effective information gathering are some of the most important processes and characteristics needed to run an efficient and effective Board
- A feedback mechanism is also another crucial processes needed by a Board of Directors. This would ensure that the Board continuously improves it approach to business challenges

The Heidrick and Struggles (2009) results on a Board effectiveness study found that:

- 95% of directors are satisfied that they receive sufficient information to perform their jobs
- CEO satisfaction, however, has declined and less than one-third of directors have independent information channels about the company
- The majority of the Boards surveyed have regular executive sessions
- Despite that governance requirements have become more stringent, less than two-thirds of Boards have regular training for directors

Finkelstein and Mooney (2003) argue that the most valuable approach to understanding Boards is to focus on key characteristics of Board process. These characteristics of Board process can then be used as levers to improve corporate governance practices in companies. In addition, Board process has a major impact overall Board effectiveness. Boards of Directors perceive process issues as the overall mechanism in which they function as a group. Efficient Board processes are vital in ensuring that a

Board of Directors carries out its duties effectively and this also cascades in positive company performance.

Proposition 7: Constructive conflict between Boards of Directors is one of the main determinants of Board effectiveness and a very crucial best practice.

2.8 Board Committees

Changes in corporate governance have continuously increased the importance of Board committees. According to Kula (2005), Board committees are the internal administrative structure in a Board where decisions initially originate. This is essentially the division of responsibilities between Boards of Directors. Board committees normally have a cascading positive effect on Board effectiveness and company performance. Any confusion between the responsibilities of the Board and the committees is likely to reduce the effectiveness of the Board and increase the potential of a weak governance system.

> "The establishment of board sub-committees has been strongly recommended as a suitable mechanism for improving corporate governance, by delegating specific tasks from the main board to a smaller group and harnessing the contribution of non-executive directors... Over the last decade, most large public companies have set up such committees, but their impact on governance standards has not been widely explored" (Spira and Bender 2004: 489).

Heidrick and Struggles (2009) state that 92% of Boards of Directors have felt that Boards effectively use their committees to get work done. Boards of Directors also posit that committees have become more important than they were in 2001. Given that the establishment of audit, remuneration and nomination committees have increased over the decade (Spira and Bender 2009), the King III report (2009) has made some substantial contributes:

- Delegation of authority to Board Committees, who are required to make recommendations to the Board , does not absolve the Board from responsibility

- In terms of audit committees, the independent non-executive director members of the audit committee should be skilled and experience

- The chairman of the audit committee should be an independent non-executive director

Proposition 8: Board committees are a great mechanism to include in Boards as a means of enhancing Board effectiveness.

2.9 Board Recruiting and Development

One of the areas which has been significantly affected by the new corporate governance environment has been the ability for companies to attract competent directors to serve on Boards. The King III (2009) report recommends that a formal training and development of directors' process should exist. This comes as no surprise as:

> "The overwhelming majority of directors will have received little if any preparation for their boardroom roles and there is often confusion between respective roles and responsibilities of the board and of management. Where assessment of directors occurs it tends to be in terms of the managerial or "departmental" performance of executive directions rather than their contribution to the board" (Coulson-Thomas 1994: 29).

The qualities and competencies that are sought in Boards of Directors are often not made explicit. In addition, many Boards refuse to acknowledge the need for director and Board development. One would argue that in order for a Board of Directors to be effective, it needs to have the ability to mobilize its intellectual capital which can only happen through director and Board development.

Boards of Directors also have training and development needs which are

different from those needed by managers. Unfortunately, training and developments needs never seem to reach the Boardroom. Coulson-Thomas (1994) argues that although director training needs may differ according to the context of a company, it is however, possible to profile a competent director and effective Board.

The increase standards of Board accountability and mounting restrictions have also contributed in the difficulties associated with identifying and recruiting competent Board of Directors. The Heidrick and Struggles (2009) survey found that:

- 57% of Boards of Directors were not willing to serve on other Boards
- Best corporate governance practices argue that Boards need to create the right combination of competencies, which further complicates Board recruitment

Heidrick and Struggles (2009) recommended a few initiatives that could help address the challenge of Board recruitment and development. These include but are not limited to the following:

- Training and evaluation of individual Board members
- Nominating committees need to look beyond the CEO in order to expand the pool of potential Boards of Directors
- There should be preparation of long-term director succession and Board evolution plans that are aligned with the company's strategy. This would allow the Board to consider both short and long term skills requirements
- Director recruitment should be an ongoing activity rather than it being done when there is an urgent need to fill a Board seat

In a nutshell, in order to ensure Board effectiveness, Boards of Directors need to possess personal skills in the areas of strategic perception and decision-making, among other competencies. Also, there needs to be a

systematic and rigorous recruitment of Board of Directors (Conforth 2004).

Proposition 9: A systematic and rigorous approach is needed in Board recruitment and development. Board training and development will ensure that Boards of Directors are well equipped to effectively execute their roles.

2.10 Board Dynamics: Relationship between Boards and Management

Each Board is more likely to have its own dynamics. Dynamics would take the form of many factors which include the personalities and relationships among the directors: their background and skills and their connections. Research in this area has attempted to estimate the impact of various Board characteristics against Board conduct and firm performance (Adams et al 2009).

In terms of Board relationships, Shen (2003) states that the relationship between the CEO and the Board of Directors is highly imperative in corporate governance. Given the ownership dynamics of publicly listed companies, the CEO-Board of Directors relationship has been perceived to have major organisational implications. It is therefore important for the Board of Directors to ensure a balance between CEO leadership development and managerial control in its relationship with the CEO.

Heidrick and Struggles (2009) argue that the dynamics of Boards of Directors and management affects the overall effectiveness of the Board. In its survey, Heidrick and Struggles was able to establish the following:

- Changes in corporate governance have increased interest in the relationship between directors and management
- Most directors reported good working relations with management (91%)

- 90% of the directors surveyed mentioned that their Boards behaved independently of management

Effective Boards are those that have the ability to incorporate many different, sometimes strongly-held, views when it comes to decision-making.

Proposition 10: Good working relations between management and the Board of Directors are an important recipe for Board effectiveness.

2.11 Board Diversity

Corporate Board diversity can be defined as the percentage of racial or ethnic members on a Board (Fairfax 2005). Dalton et al (2005) point out that the benefits of Board Diversity include constructive debate and full consideration for all issues at hand and most importantly: enhanced innovativeness and the ability for a Board of Directors to champion change. In effect, this will benefit shareholders.

> "Boards of Directors, as a pre-eminent decision-making body in a corporation, seem a timely and relevant backdrop for considering concepts of group decision-making and diversity" (Dalton et al 2005: 8).

Carter, Simkins and Simpson (2003) attest that diversity has positive effects on Board effectiveness and company performance in the following ways:

- Diversity helps a company to promote a better understanding of the marketplace. This means that the company's profile is enhanced in the marketplace

- Diversity increases creativity and innovation

- Diversity produces better problem-solving techniques as there is a variety of perspectives in terms of race, gender and age to contribute

to the decision-making process

- Diversity also enhances Board and corporate leadership. This helps in better understanding the complexities of a more challenging business environment

- Finally, diversity helps the company to promote strong global relationships in an increasingly diverse marketplace

In terms of job diversity, given an increasingly globalized world, it comes as no surprise that Boards are tending to seek for directors with international experience. It is expected that Boards will continue in the next couple of years to seek women and minorities. Board Tenure has also seen some changes; Boards of Directors serve shorter terms. According to Anon (2009), 66 percent of Boards have one-year terms.

A diverse Board of Directors, whether by race, tenure, gender or background, brings a unique contribution which could enhance Board effectiveness and improve a company's goals. Anon (2009) states that the next five years will see more diversity in boardrooms in terms of gender, race, perspective and experience. This demonstrates the fact that the profile of a Board of Directors continues to evolve with time.

Proposition 11: Companies should increase Board diversity as it increases Board effectiveness.

2.12 Board Best Practices: What Makes an Effective Board?

At this juncture, it is perhaps appropriate to look at a consolidated view of Board best practices in terms of what makes for an effective Board. According to McGregor (2000), an effective Board is one that:

> Provides strategic oversight, evaluates corporate and top executive performance, represents and relates to shareholders, serves as a resources to top management, protects and enhances the company's assets and fulfils

legal requirements (McGregor 2000:175).

PriceWaterHouseCoopers (2001) in their Meeting Market Expectations series where 80 of the world's leading companies were surveyed found that companies were increasingly recognizing that best practices were rewarded by the market. In addition, PriceWaterHouseCoopers in their series recognized that there is no one size fits all template which can be applied to all markets. However, the company is of the opinion that "there are some good practices which all listed companies should at least consider, regardless of the country or sector they are operating in." (PriceWaterHouseCoopers 2001: 6).

From the aforementioned PriceWaterHouseCoopers (2001) survey, the company suggested that all companies should consider the following best practices for effective boards, which can also be used as a Board's self-assessment guide:

- There is a strong working partnership between the Board and senior management-the Board provides strategic oversight; management is responsible for operations
- There is a strong independent element on the Board
- Board size is small enough to provide for effective debate and decision making
- Board sub-committees are created in order to assist with sensitive issues such as executive appointments
- Consideration is given to separating the roles of Chairman and CEO, where these are combined
- Board Meetings are held regularly (at least quarterly, preferably monthly)
- The Chairman, other Board members and the secretary are clear about their respective roles and responsibilities

- There is succession planning in place for identifying the next generation of executives to lead the company
- The Board reviews and challenges management's strategic options and proposals

Although the above findings from the PriceWaterHouseCoopers survey did not cover some of the best practices previously identified in the Literature Review, a study done by Gregory (2001) under auspices of world renowned law firm Weil, Gotshal and Manges on the international comparison of corporate governance guidelines and codes of best practice found that:

- The Boards of listed public companies should consist of a majority of non-executive directors of sufficient calibre
- Boards may consider establishing specific committees which may require a minimum number, or composed entirely of non-executive members
- The Board should fulfil certain key functions, including…ensuring a formal and transparent nomination process
- In addition, in order to improve Board practices and the performance of its members, it is useful for a Board to engage in training and voluntary self-evaluation that meets the needs of the individual company.

It should be mentioned that there has not been evidence in academic literature that has come with a consolidated model for what makes an effective Board. This observation is further attested by Carver (1998) who points out that " because of pressures of corporate boards to perform more assertively and proactively, the need for a model will grow in years ahead, if only so that strengthening the board does not equate to appropriate weakening of CEOs (Carver 1998: 16).

Nonetheless, one would argue that the above list of best practices would

suffice for now as a model of how an effective Board should look like and be run. The academic literature discussed thus far was able to establish most of the aforementioned best practices.

2.13 Board Best Practices –Perspectives and Approaches in the ICT Sector

The ICT industry in South Africa is highly competitive with various local and international competitors seeking to expand their market share. In order to become a player in the market there are stringent and sophisticated regulatory hurdles which need to be overcome as well as various political interventions which must be anticipated and managed.

On a global scale, the ICT industry has experienced rapid evolution and growth. To that end, governments and regulators have attempted to find the best and most efficient ways to govern ICT firms. There has also been advocacy for good governance practices and the need to recognize relevant stakeholders (O' Regan, O'Donnell, Kennedy, Bontis and Cleary 2005).

Although the focus of this research is to determine Board best practices that can enhance Board effectiveness in the ICT sector, the author discovered that this is not a well documented sector. In that regard, the literature review will be quite limited. The lack of literature in this sector provides a stronger case why this research is important to the body of knowledge.

A study on corporate governance of the Irish ICT sector (O'Ragan et al 2005) found that the focus on corporate governance in the ICT sector has been on improving the efficiency, effectiveness and competency of ICT Boards. This is arguably the same proposition of Board reform in other sectors. The aforementioned study, similar to this proposed research, looked at the composition, structure and size of ICT companies in Ireland. The main result was that there was little or no variation in numbers in

terms of gender, size or age compared to other sectors.

Executive directors were found to be the majority. This is certainly against the norm of what has been advocated for in terms of promoting Board effectiveness. Essentially, the governance structure and best practices for the Board of Directors of the ICT sector in Ireland were found to be similar to that of other sectors. Other characteristics such as Board committees and director development were not considered by the study. However, one would argue that the issues associated with these characteristics should be similar to those that have been identified by the literature review thus far.

Proposition 12: It is expected that governance best practices of the ICT sector will be similar to generally accepted best practices from other sectors.

Proposition 13: Composition, structure and size of ICT Boards will be consistent with other sectors.

2.14 Conclusion of Literature Review

The focus of the literature review was to determine the best practices needed for Boards of Directors in the ICT sector to function in an effective manner. The literature review identified the following best practices which will be further investigated to ascertain whether listed ICT companies adhere to them:

- Good practice in corporate governance is essential in building shareholder and investor confidence
- Boards of Directors have a clearly defined understanding of their roles and functions
- CEO and Chairman duality is not directly correlated to firm performance and board effectiveness. Henceforth CEO and Chairman

duality should be a Board's prerogative

- Non-executive and independent directors should constitute most of the Board of Directors in order to ensure Board effectiveness
- Board size's influence on Board effectiveness is dependant on the company's managerial characteristics and the type of industry in which the company operates
- Smaller Boards are arguably more effective in terms of coordination of meetings, communication and decision-making tasks
- Constructive conflict between Boards of Directors is one of the main determinants of Board effectiveness and a very crucial best practice
- Board committees are a great mechanism to include in Boards as a means of enhancing Board effectiveness
- A systematic and rigorous approach is needed in Board recruitment and development. Board training and development will ensure that Boards of Directors are well equipped to effectively execute their roles
- Good working relations between management and the Board of Directors are an important recipe for Board effectiveness
- Companies should increase Board diversity as it increases Board effectiveness
- It is expected that governance best practices of the ICT sector will be similar to generally accepted best practices from other sectors
- Composition, structure and size of ICT Boards will be consistent with other sectors

The research that was subsequently conducted includes the identified best practices and establishes best practices more specific to the ICT sector.

CHAPTER 3: RESEARCH METHODOLOGY

This section describes the methodology used to conduct the research and the propositions listed in the conclusion in section 2. This is achieved by a review of the research methodology. This will be followed by a discussion on the research design, population and sample and the research instrument. The section will then look at the procedure for data collection, data analysis and interpretation. Finally, the section will discuss limitations and validity and reliability of the study.

3.1 Research Methodology

Given that the research was both exploratory and descriptive, it therefore meant that the qualitative methodology would be the most appropriate methodology to utilize in this research. Qualitative research is defined as the process of gaining insight into people's behaviours, value systems, inspirations and ambitions by analysing unstructured information such as interview transcripts, emails and feedback forms (OSR International 2007). There are a number of benefits associated with the qualitative research methodology: the qualitative method enables a researcher to "study meanings. It allows the researcher to tap into the perspectives and interpretations of participants." (Willig 2008: 158).

In addition, the qualitative research method was appropriate because it would enable the researcher to collect "open-ended emerging data with the primary intent of developing themes from the data." (Creswell 2003: 18). The data of the proposed research was collected through interviews with Boards of Directors in the ICT sector. Henceforth, the interview questions were open-ended but structured.

3.2 Research Design

Due to the fact that the best practices of effective Boards of Directors in the ICT sector have not been adequately researched and well documented, this warrants the need and justification for a qualitative

approach. This approach is useful for a researcher who is not certain of the important variables to examine (Cresswell 2008). Henceforth, the research design took the form of a simple interpretive study. Furthermore, this approach "maybe needed because the topic is new, the topic has never been addressed with a certain sample or group of people." (Cresswell 2008: 22).

The advantage of this approach is that is can help generate novel ideas in a subject and can also account for tensions and contradictions in the data collected (Willig 2008). In addition, it was assumed that the respondents would be familiar with an interview structure. This would allow the researcher to elicit more in-depth responses and fill in information in instances where the respondent does not understand the question. However, this approach was also laden with some disadvantages which included the fact that qualitative research tends to be uncertain in some instances. Also, it was expected that the questions posed to the respondents would be misunderstood in some cases and there could be a lack of rapport between the researcher and the respondent (Willig 2008).

3.3 Population and sample

3.3.1. Population

The population was drawn from ICT companies listed on the JSE, including their subsidiaries located in the Gauteng province in South Africa. The reason being that it was easier to gain access to these companies and to set up interviews. For the purposes of this research, only Boards of Directors of the aforementioned firms were interviewed.

3.3.2. Sample and Sampling Method

The researcher endeavoured to conduct 20 in-depth interviews with Boards of Directors of listed ICT companies in the Gauteng province from 10 targeted companies. However, after months of constant follow up with

the identified Boards of Directors, the number decreased to 14 interviewees from 8 companies. Although the proposed 20 interviews were not achieved, the researcher saw convergence in the responses early on in the interviewing process. It can, therefore, be argued that the number that was finally achieved, 14, was appropriate enough to draw substantial conclusions on the subject. In addition, given the fact that the researcher endeavoured to interview Boards of Directors who are by virtue of sitting on Boards are limited in terms of availability, the researcher also conducted phone interviews in some instances.

This is convenient sampling. Selecting a small sample tends to be effective in generating in-depth insight into the investigated problem (Leedy and Ormrod 2001). Interviews were solicited via telephone and email. In the event that a targeted Board of Director was not available, an alternate who was equally equipped to respond to the interview questions was solicited. In some instances, the alternate would be a company secretary who was equally equipped to respond to the interview questionnaire.

The nature of the research warranted that the sample would be non-random and non-probable. The researcher also hoped that the targeted respondents would be in a position to refer the researcher to other Boards of Directors within the ICT sector. Hence, benefitting from the snowball sampling effect. In some instances, the snowball sampling effect worked and in others it did not.

3.4 The research instrument

The semi-structured interview questionnaire is provided in Appendix D and was used as the research instrument. The advantage of a semi-structured interview was that the researcher would be able to explore other interesting insights if and when they arose. The disadvantage of this kind of research instrument is that the respondents may be concerned about issues of confidentiality, especially given the area of discussion. There were a number of instances where the interviewees requested that

they not be identified, despite the fact that a confidentiality agreement had been signed.

3.5 Procedure for data collection

The data was collected through both face to face and in-depth telephonic interviews which were arranged with Boards of Directors who sit on ICT companies listed on the JSE. It was appropriate to interview Boards of Directors who sat on these companies as they were well placed to provide concrete insights on what they perceived as best practices needed for ICT Boards of Directors in order to be more effective.

Some interviews took place at the respondents' premises and some, as already mentioned, had to be conducted on the phone due to availability constraints. The interviews were semi-structured in nature. This enabled the researcher to direct the conversation in line with the topic at hand. Furthermore, this allowed the respondents to be comfortable in expressing their views. The researcher also requested for interviews to be recorded and notes were taken.

Given issues of confidentiality, the researcher ensured that respondents were given a confidentiality agreement generated by the researcher in conjunction with the Business School.

The researcher ensured that the interview questions and a cover letter were sent ahead of time in order for the respondent to have time to reflect and share in-depth insights on the questions posed. The interview questions explored the following themes:

- Views on good Corporate Governance
- Roles and Responsibilities of the Board
- CEO and Chairman Duality
- Non-executive and Executive Directors

- Board Size
- Board Processes
- Board Committees
- Board recruitment and development programmes
- Relationship between the Board of Directors and management
- Diversity on the Board
- Best practices in the ICT sector

3.6 Data analysis and interpretation

The most fitting analysis and interpretation of this research was content analysis. In the context of content analysis, data is analysed by highlighting trends and themes.

The feedback from respondents was coded and tabulated in a spreadsheet in order to highlight common trends and themes that emerged from the interviews. It was expected that the coding would enable the researcher to confirm existing theory or add to the body of existing literature on the subject of best practices of Boards of Directors in the ICT sector. Differences and inconstancies in the responses received were also highlighted. The coded interviews were coded according to the propositions identified in the literature review. A theme that was found recurring in a single interview was only counted once in the coding process.

The codes that were generated served to confirm most of the propositions that were discovered in the literature review. In some instances, new propositions were generated which added to the body of knowledge in the discipline. These new propositions were grouped together and are further discussed in chapters 5 and 6.

3.7 Limitations of the study

The research was reliant on a sample of individuals. Also, respondents were very difficult to secure, they would either not respond or cancel interviews which then impacted on the initial proposed number of respondents interviewed.

3.8 Validity and reliability

3.8.1. External validity

External validity is the extent to which findings of a study can be generalized to other contexts (Babbie and Mouton 2004). Hence, the research was based on guidelines which could easily be adapted to different contexts (Leedy and Ormrod 2001). Given that the sample was limited by the size of the convenient sample, limited generalizations were made. It was therefore expected that the interview instrument would be reliable enough but external validity would probably not be as formidable.

3.8.2. Internal validity

Internal validity is defined as the extent to which the data collection instrument is designed in such a way that it ensures that the research draws accurate conclusions (Leedy and Ormrod 2001). In order to demonstrate that internal validity exists, the researcher ensured that the research methodology, instrument and results were analyzed based on face validity and plausibility. Findings from the interview were analyzed in such way that they were in line with other similar research in the field.

3.8.3. Reliability

Reliability is defined as the extent to which a given research question yields the same results if the same research is conducted in the future (Leedy and Ormrod 2001). In the context of this research, reliability was

achieved by ensuring that the researcher conducted interviews personally and that there was uniformity.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

This chapter presents the results of the conducted research. The chapter comprises eleven sections: each section presents the findings related to the research's objective. The findings include:

- Views on good Corporate Governance
- Roles and Responsibilities of the Board
- CEO and Chairman Duality
- Board Composition and Structure
- Board Size
- Board Processes
- Board Committees
- Board recruitment and development programmes
- Relationship between the Board of Directors and management
- Diversity on the Board
- Best practices in the ICT sector

4.2 Demographic profile of respondents

The demographics of the research sample was Boards of Directors of ICT companies, primarily JSE listed companies. The sample also included subsidiaries of these companies and in some instances the researcher interviewed Boards of Directors of a group subsidiary based in another country, such as Democratic Republic of Congo (DRC). The researcher had initially planned to obtain interviews with Boards of Directors based in

the Gauteng area. In addition, the researcher had initially planned to obtain 20 interviews. However, due to lack of response, and continual persistence by the researcher, the researcher ended up obtaining 14 interviews and had to improvise with location of interviewees as well.

4.3 Views on Good Corporate Governance

Proposition 1: Good practice in corporate governance is essential in building shareholder and investor confidence.

Interviewees were asked for their views on good corporate governance where shareholder and investor confidence were concerned. The table below summarizes the main themes that were generated during the interviews:

Table 2: Views on Good Corporate Governance

Views on Good Corporate Governance	Frequency of occurrence	%
Shareholders are looking to the Board to be a yard stick on their behalf	7	50
Good Corporate Governance is good for Return on Investment	10	71.42
Not top of the list, Investors and Shareholders look beyond corporate governance	1	7.14
Shareholders and Investors want to be associated with a business that adheres to good corporate governance	13	92.86
Critical for shareholder and investor confidence	13	92.86

As depicted by the table above most of the respondents, 13 out of the 14 (92.86%) agreed that shareholders and investors want to be associated with a business that adheres to good corporate governance. In addition, most of the respondents, 13 out of the 14 (92.86%), agreed that good corporate governance is critical for shareholder and investor confidence. Other key points highlighted in the interviews included:

- Good corporate governance is very important for proper management and oversight of any company

- Where governance is good, it is usually accompanied by good operational and stock market performance
- Good corporate governance creates a sustainable atmosphere of growth and performance

4.4 Roles and Responsibilities of the Board

Proposition 2: Boards of Directors have a clearly defined understanding of their roles and functions

Interviewees were asked if their Boards had clear guidelines on their roles and responsibilities and how that affected the way in which their Boards functioned. All the 14 (100%) respondents pointed out that Boards of Directors on their Boards had clear guidelines on their roles and responsibilities. This also included what is defined in the Boards charters and general fiduciary duties. According to the respondents, Boards of Directors in the ICT sector are duly aware of their key deliverables. This in ensures that their Boards function effectively.

4.5 CEO and Chairman Duality

Proposition 3: CEO and Chairman duality is not directly correlated to firm performance and board effectiveness. Henceforth CEO and Chairman duality should be a Board's prerogative.

Interviewees were asked their views on CEO and Chairman duality (company having the same individual as CEO and Chairman) and whether this had any direct correlation with Board effectiveness.

10 out of the 14 (71.42%) respondents asserted that it was important to separate the roles in order for objectivity to take place on the Board. In addition, these respondents felt that there was a positive correlation between CEO and Chairman duality and how the Board functioned. The support for separation of roles and its correlation with how the Board

functioned was based on the following arguments:

- King 111 recommends the separation of CEO and Chairman
- If roles are not separated, it would dilute transparency. Roles need to be separated for the sake of check and balances. The CEO is there to ensure the effective running of a company. The Chairman's responsibility is to ensure that the Board functions effectively
- Independence of a Chairman is critical in ensuring objectivity on the Board
- For an investor, it compromised governance because the Board ends up becoming an extension of the management team. In addition, it concentrates too much power on one individual
- In cases where there is no division of responsibility between the Chairman and the CEO, there is usually a blurred accountability scenario

4 out of the 14 Boards of Directors (28.57%) thought that it depended on other factors. These factors included:

- The culture and type of organization
- Board effectiveness was effectively assured by a competent Chairman who is able to contextually play "devil's advocate"
- It is beneficial for executive management as they can influence quicker decision-making

In essence, the majority of respondents agreed that there should be a separation of roles between the CEO and Chairman. In addition, the majority of respondents felt that there was a positive correlation between separation of CEO and Chairman roles and how the Board functioned.

4.6 Board Composition and Structure

Proposition 4: Non-executive and independent directors should constitute most of the Board of Directors in order to ensure Board effectiveness.

Interviewees were asked about the split between non-executive and executive directors on their Boards and whether it had any effect on Board effectiveness? In addition, interviewees were asked about what they thought the optimal number was for non executive and executive directors on the Board.

13 out of the 14 (92.86%) respondents stated that most of their Boards constituted of a majority of non-executive directors. All the respondents agreed that the presence of non-executive directors had a positive impact on how the Board functioned. The following were listed as some of the advantages of having a majority of non-executive directors:

- It enhances strategic debate and discussion
- The independence of the Board is important for maximum effectiveness and accountability. This independence is maximised by ensuring that the majority of the directors are non - executive and independent
- It ensures that Boards of Directors are not just a rubber stamp for management
- It also enhances the broad experience that a company can effectively leverage
- A company can benefit immensely if the non-executive directors can be allocated to aspects of the company's business such as Human Resources and Finance or other sub-committees
- It creates some sort of balance on the Board

I out of the 14 (7.14%) respondents stated that the majority of Boards of

Directors on the Board were executive directors. The attributed reason for this was because it was a family listed business.

Overall, it was discovered, as per the majority of respondents that in order for a Board to function effectively, it should constitute of a majority of non-executive directors.

4.7 Board Size

Proposition 5: Board size's influence on Board effectiveness is dependant on the company's managerial characteristics and the type of industry in which the company operates.

Interviewees were asked if the size of their Boards affected Board performance or effectiveness. Finally, interviewees were asked to recommend an optimum Board size.

9 out of the 14 respondents (64.29%) stated that Board size influenced Board performance. 3 out of the 14 respondents (21.43%) stated it depended on other factors. 2 out of the 14 respondents (14.29%) said that Board size had no impact on Board performance.

The respondents that said that Board size influenced Board performance gave the following views in support of their assertions:

- A smaller Board is more effective
- A smaller Board allows each of the Board members to have their voices heard. On the other hand, a large Board may end up with the loudest individuals dominating, and the brightest ideas being unheard from the less forceful Board members
- Larger Boards tend to be more ineffective. In fact, a Board that is too large may undermine effectiveness and create personality mixes that hinder productivity, especially if the Chairman is not firm enough

- Coordination in a larger Board is more challenging especially when it comes to convening meetings

The respondents that said that other factors influenced Board size and performance gave the following reasons:

- Board size and its influence on performance is influence by the size of the company. Henceforth, it would be expected that the smaller the company, the smaller the number of directors
- It is important to have just enough directors covering the skills and experience base required for proper performance of its duties

The respondents that said that Board size had no impact on Board performance gave the following reasons:

- The Board decision-making process where performance was concerned was independent of Board size

In terms of the recommended optimal size of a Board, all respondents stated that there was no particular number that they could recommend. However, the optimal size depended on:

- The size of the company and the industry in which it operates
- The market capitalization of the company

4.8 Board Processes

Proposition 6: Constructive conflict between Boards of Directors is one of the main determinants of Board effectiveness and a very crucial best practice.

Interviewees were asked whether their Board's processes were efficient. In addition, respondents were asked to comment on whether constructive conflict among Board members made a Board more effective.

All 14 (100%) respondents stated that they had efficient Board processes

and also agreed that constructive conflict was an important best practice as it enhanced Board effectiveness. The overarching theme was the fact that functioning of the Board is largely in the hands of the Chairman. A good Chairman and adherence to best practices as far as Board processes are concerned will create a climate of productive Board member participation in the business of the Board.

The respondents stated the following reasons on why constructive conflict was an important best practice:

- At Board level one is looking to have different ideas discussed in order to reach an optimal solution for the company. It is not always helpful when all Board members are all in agreement, as this may lead to a common blind spot that is not addressed
- Constructive disagreement is good for decision-making: it allows for robust engagement
- A company needs independent views which are constructive and not personal, it is for the benefit of a company
- It allows Board members to anticipate that they will have to account for different opinions thus ensuring that proposal submissions are well thought out

4.9 Board Committees

Proposition 7: Board committees are a great mechanism to include in Boards as a means of enhancing Board effectiveness.

Interviewees were asked whether their Boards constituted of Board committees and whether the presence of Board committees affected Board effectiveness.

13 out of the 14 (92.86%) respondents pointed out that they had Board committees on their Boards. While 1 out of the 14 (7.14%) respondents pointed out there were no Board Committees on their Board. The

benefits of Board committees were recognized as follows:

- Best practice in corporate governance requires that Boards have specialised or focused committees such as the audit and risk committees
- The committee approach allows for greater focus on specific Board duties by fewer, more relevant skilled Boards of Directors resulting in more efficient and productive outcomes
- They make a Board more effective because Boards of Directors are given more delegated power
- Board committees for specialized units within the Board and therefore act as sub advisory members to the Board
- Board of Directors have a good view of what is actually going on in a company especially from a liability point of view
- Board committees provide some sort of comfort to shareholders as it inspires confidence on how a company is run
- Board committees tend to receive more detailed feedback than the Board. This allows the Board to debate key issues

4.10 Board Recruitment and Development Programmes

Proposition 8: A systematic and rigorous approach is needed in Board recruitment and development. Board training and development will ensure that Boards of Directors are well equipped to effectively execute their roles.

Interviewees were asked whether Board recruitment and Board development programmes were prominent on their Boards. In addition, respondents were asked to comment on how this affected they way Boards functioned. Table 3 below summarizes what the respondents

thought on the matter:

Table 3: Existence of Board recruitment and Development Programmes

Board recruitment and Board Development Programmes	Frequency of Occurrence	%
Existence of programmes	9	64.29
Non-existence of programmes	5	35.71

As depicted by table 3 above, 9 out of the 14 respondents (64.29%) pointed out that Board recruitment and Board development programmes existed on their Boards. 5 out of the 14 respondent (35.71%) pointed out that these programmes did not exist on their Boards.

Respondents pointed out that the existence of Board recruitment and development programmes affected the way Boards functioned in the following ways:

- They assist in situations where there are vacancies to be filled and newly appointed directors get an opportunity to be inducted into how that particular Board functions
- They help in succession planning
- They assist in optimizing Board effectiveness
- Even after Boards of Directors have been on-boarded, they require regular development or update sessions in the areas of best practices in governance, law and other specific skills

4.11 Relationship between Board of Directors and Management

Proposition 9: Good working relations between management and the Board of Directors are an important recipe for Board effectiveness.

Interviewees were asked to describe the relationship between Board of Directors and the company's management. Interviewees were then asked how the relationship affected the way the Board functioned.

All 14 (100%) respondents pointed out there was a strong, positive relationship between Board of Directors and Management. The respondents mentioned that the positive relationship between Board of Directors and management had the following benefits:

- A good relationship between Board of Directors and management is crucial for the effectiveness of the Board as management runs with all daily activities in the business and the Board depends on management for execution of decisions and provision of information
- It enables the Board to play a supportive role to management, which includes providing strong guidance where management can be assisted to arrive at more creative solutions for the company
- It ensures best alignment of interests between Board of Directors and management
- The Board and management work as partners; it becomes a team effort. Mutual respect is facilitated and enhanced

4.12 Diversity on the Board

Proposition 10: Companies should increase Board diversity as it increases Board effectiveness.

Interviewees were asked to describe diversity on their Boards from a number of themes: race, gender, educational, among others. Interviewees were also requested to comment on how diversity has affected Board performance.

All 12 out of the 14 respondents (85.71%) respondents stated that their Boards were diverse across race, education, gender and industry experience. 2 out of the 14 (14.29%) respondents stated that their Boards were not as diverse.

Benefits of diversity where Board effectiveness is concerned were stated

as follows:

- It ensures that the Board is not one dimensional in its approach to strategy and problem solving
- Given the varying degrees of diversity on the Board, there is more attention to detail when it comes to the problem solving process
- Diversity is important for all Boards for improved effectiveness. A more diverse Board can best deal with the challenges of today's global business environment better
- Diversity is also a competiveness issue due to BBBEE requirements in South Africa
- Diversity enhances knowledge transfer

The respondents who stated that their Boards were not diverse pointed out that lack of diversity did not affect Board performance for the following reasons:

- Diversity is meant for compliance purposes, not performance. It is therefore sub-optimal
- Diversity on the Board does not affect performance as performance is not tied to diversity but it would be as a result of effective individuals

4.13 Best practices in the ICT Sector

Proposition 11: It is expected that governance best practices of the ICT sector will be similar to generally accepted best practices from other sectors.

Interviewees were asked to comment on whether Board best practices in the ICT sector would be different from those of other sectors.

9 out of the 14 (64.29%) respondents stated that best practices of the ICT

sector were not different from those of other sectors. 5 out of the 14 (35.71%) respondents stated that best practices in the ICT sector were different from those of other sectors.

The respondents who said that best practices in the ICT sector were not different from those of other sectors stated the following reasons:

- Board best practices would generally be the same across all sectors. The governance issues are similar to those of other sectors
- Board best practices are similar regardless of the industry in which a company operates

The respondents who stated that best practices in the ICT sector were different from those of other sectors gave the following reasons:

- Due to technical nature of the ICT sector, the skills issues may be challenging
- Inherent risk in ICT sector is very different from those of other sectors

4.14 Other Factors

Interviewees were asked to identify other best practices that were not discussed during the course of the interview.

Some of the identified best practices included:

- Adoption of Board and sub-committee performance evaluation so that there is continuous improvement
- Having an independent Chairman of the Audit and Risk committee
- Having a regular non-executive director rotation system which allows the Board to benefit from fresh skills and perspectives to

enhance Board effectiveness

- Non-executives meeting separately from executive directors
- Management and Board of Directors strategy sessions are a joint venture, which makes a major difference in directing a company's future

4.15 Summary of the Results

The 14 respondents confirmed the findings discussed in the literature review section. The chapter was able to establish conformity between the propositions generated in the literature review chapter and the perspectives shared by the respondents. The chapter also established other best practices in the ICT sector beyond the ones that were originally investigated.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter discusses research results with reference to the literature review. The chapter aims to validate the research propositions indicated in the literature review section.

5.2 Demographic Profile of Respondents

Interviews were conducted with 14 Boards of Directors from 8 ICT listed companies in Gauteng province and in some instances in subsidiaries based in other countries such as the Democratic Republic of Congo. The researcher had originally planned to carry out 20 in-depth interviews. However, after constant follow up with a number of Boards of Directors, the number was reduced to the aforementioned 14 due to the difficulties of securing interviews. The nature of the interviewees that was being solicited dictates that they are highly busy individuals and are therefore not readily available to respond to requests.

5.3 Views on Good Corporate Governance

Good corporate governance is important for building shareholder and investor confidence. Good corporate governance ensures high stock market performance and return on investment. Shareholders and investors will generally place greater confidence in a company that has good corporate governance mechanisms in place. In addition, shareholders are looking to the Board to be a governance yard-stick on their behalf. This was in line with the proposition identified in the literature review, which posited that good practice in corporate governance is essential in building shareholder and investor confidence.

5.4 Roles and Functions of the Board

Boards of Directors in the ICT listed companies have clear guidelines on their roles and responsibilities on the Boards they serve. This ensures proper functioning and effectiveness on the Board. Although Boards of Directors will tend to bring their own understanding on their roles and responsibilities from their previous experiences, ICT listed companies have ensured that Boards of Directors are constantly updated on guidelines, laws, roles, responsibilities and current best practices. The researcher was able to establish and validate the proposition that Boards of Directors in the ICT sector have a clearly defined understanding of their roles and functions. This is in line with previous academic research on the subject.

5.5 CEO and Chairman Duality

CEO and Chairman Duality is a common trend in countries such as the USA. However, this trend has steadily decreased overtime. In South Africa, this is not the case due to the culture of good governance as purported by the King Reports. It is important to separate the role of CEO and Chairman in order to enhance objectivity and accountability on the Board. Separating CEO and Chairman roles enables the CEO to focus on the effective running of a company and the Chairman on the effective running of a Board.

There is a dissenting view, however, that CEO and Chairman duality does not necessarily affect the way a Board functions as this depends on other factors. These factors include the culture and type of organization in which a company operates.

Overall, best practice is clear in discouraging CEO and Chairman Duality especially in the context of South Africa. In addition, best practice advocates for separation of duties which will in effect contribute to greater effectiveness of the Board. This will also ensure the strengthening of

oversight and accountability.

In conclusion, the findings in this regard where therefore contrary to academic literature which stated that CEO and Chairman duality is not directly correlated to firm performance and Board effectiveness. However, there were respondents that supported this premise, albeit, not the majority.

5.6 Board Structure and Composition

Academic literature and the majority of interviewees argue that non-executive and independent directors should constitute the majority of Board of Directors on a Board to ensure Board effectiveness. The presence of non-executive and independent directors has a positive impact on how a Board functions. The benefits of having a majority of non-executive and independent directors include:

- Enhanced strategic debate and discussion
- Independence of the Board is maintained
- Enforces checks and balances on the Board
- Leverage for the Board from broad experience of Board of Directors

In essence, the researcher was able to establish that a Board that comprises a majority of non-executive and independent directors ensures that a Board functions well and that it is an important best practice to adopt.

5.7 Board Size

The majority of interviewees stated that the size of a Board influences Board performance. This was contrary to what was found in the literature review which stated that a Board's size's influence on Board effectiveness is dependent on the company's managerial characteristics and the type of

industry in which the company operates. There were, however, supporting views on this premise but they did not represent the majority of respondents.

Smaller Boards tend to be more effective and allow for enhanced debate. Larger Boards tend to be more ineffective and are difficult to coordinate. It is therefore best practice to ensure that companies in the ICT sector maintain smaller Boards.

5.8 Board Process

Efficient Board processes are important in ensuring that a Board functions well in a productive climate. The functioning of a Board is dependent on the strength of the Chairman. A good Chairman who ensures adherence to good Board practices will also have the ability to ensure that there are high levels of director participation, thus creating a free flow of ideas, some of which maybe constructively laden with conflict.

Constructive conflict as most academic literature has found is one of the main determinants of Board effectiveness and a crucial best practice. Constructive conflict is good for decision making and allows for robust engagement. It is important to have different ideas discussed on the Board in order to reach optimal solutions for the benefit of a company.

Both the literature review and interviewees were able to confirm that constructive conflict and efficient Board processes are important best practices and are crucial for Board effectiveness.

5.9 Board Committees

It is a fundamental best practice that Boards have specialized committees where specific Board of Directors are focused on certain tasks pertaining to a company. This allows for more efficient and productive outcomes. Committees allow for delegation of power and responsibilities to different Boards of Directors. Furthermore, committees are able to act as advisors

to the main Board on various issues affecting a company. This is also means that Boards of Directors are adequately equipped to make substantive decisions based on detailed feedback from the various committees.

Inclusion of Board committees on Boards is therefore crucial in enhancing Board effectiveness.

5.10 Board Recruitment and Development Programmes

Board recruitment and the offering of continued development programmes are important in order to optimise Board effectiveness. Board recruitment and development programmes have assisted ICT listed companies on issues of induction for new Boards of Directors and succession planning. As new laws and trends are introduced, development programmes also become important in ensuring that Boards of Directors are kept up to date with the latest governance and best practices trends.

There are, however, ICT listed companies who do not have such programmes on their Boards, which arguably limits their effectiveness in the long run.

Both the literature review and the research results established that Board recruitment and training will ensure that Boards of Directors are well equipped to effectively execute their roles.

5.11 Relationship between Board of Directors and Management

Relations between a Board of Directors and management need to be positive for the success of a company. They should all be part of the same team. However, it is important that the Board operate independently of management and provide leadership to management. A good relationship between the Board and management is crucial for the effectiveness of the Board. The Board depends on management for

execution of decisions and provision of information.

The literature review and research findings were therefore able to conclude that good working relations between management and the Board are crucial for the effective functioning of a Board.

5.12 Diversity

Diversity is important for all Boards for improved effectiveness. This would be in the area of gender, race, skills and experience, among other metrics. A more diverse Board can best deal with the challenges of today's global business environment. Diversity assists companies in dealing with competitiveness. A number of ICT listed companies have seen and realized the benefits of having increased diversity on their Boards. Diversity of individuals and perspectives has ensured that there is a multi-dimensional approach to problem solving, including knowledge transfer. Despite the inroads that have been achieved on Board diversity, there are still some listed companies that are not as diverse across some of the aforementioned metrics.

From both the literature review and research findings, it would appear that it is in the best interests of ICT listed companies to adopt and increase Board diversity as it not only enhances Board effectiveness but it makes good business sense, especially in the context of the South African business landscape where there are requirements such as Black Economic Empowerment and its various codes that companies have to adhere to.

5.13 Best practices in the ICT Sector

Board best practices would generally be the same across all sectors. However, due to the technical nature of the ICT sector, there could be challenges related to Boards of Directors skills. Other possible differences between the ICT sector and other sectors relates to the inherent risk and

constant regulatory changes in the ICT sector.

The literature review and research findings confirmed the premise that governance best practices of the ICT sector will be similar to generally accepted best practices of other sectors.

5.14 Conclusion

The chapter was able to validate and prove the results findings with what was generated in the literature review in the form of propositions. Most of the propositions in the literature review were confirmed by the research findings. However, there were some differences in perceived best practices for the ICT sector in the following areas:

- CEO and Chairman Duality: research findings advocated for separation of roles in order to enhance firm performance and Board effectiveness. However, academic literature posits that CEO and Chairman duality is not directly correlated to firm performance and Board effectiveness

- Board size: research findings concluded that Board size does influence Board performance and effectiveness. However, the academic literature argues that Board effectiveness is dependent on the company's managerial characteristics and the type of industry in which the company operates

Overall, the research findings were in line with current academic literature on what constitutes Board of Director best practices in the ICT sector.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter summarizes the findings of the conducted research. The chapter then provides recommendations to stakeholders pertinent to the conducted research. Finally, the chapter concludes with suggestions for further research in the area of best practices for Board of Directors in the ICT sector.

6.2 Conclusions of the Study

Good corporate governance is essential for proper management and oversight of any company beyond the ICT sector. In instances where governance has proved to be effective, it has been accompanied by positive operational and stock market performance. Shareholders and Investors are deemed to benefit from a company with good corporate governance in place. In addition, shareholders and investors would also express greater confidence in a well governed company, which in turn creates a sustainable atmosphere of growth and performance.

Given the complexities of today's global business environment especially in light of the recent financial crisis and a number of corporate failures, it is important for Boards of Directors to understand all the elements, including best practices, that determine effectiveness so that companies remain competitive and relevant in the industries in which they operate. Henceforth, Boards of Directors including those in the ICT sector are under enormous pressure and attention to inspire confidence in business systems and provide a stable framework for governance and growth in companies.

This research report has, therefore, identified a number of best practices required by Boards of Directors that sit on listed ICT companies which will equip them to gain and maintain a competitive advantage. The research

findings were mostly in line with what is currently purported by academic literature. The main findings of this research can be summarised as follows:

- Boards of Directors in the ICT listed companies understand and support the notion that good corporate governance is an essential best practice for Boards of Directors in order to build shareholder and investor confidence

- Boards of Directors in the ICT listed companies have clearly defined roles and functions

- In most ICT listed companies, non-executive and independent directors constitute the majority of Boards of Directors

- Boards of Directors in the ICT listed companies are proponents of constructive conflict on the Board and perceive it as a crucial best practice

- The majority of ICT listed companies have a number of Board committees on their Boards. These companies view the presence of Board committees as an important step towards achieving Board effectiveness

- Boards of Directors in the ICT sector are constantly trained and developed on the latest best practices in Board governance. This has assisted Boards of Directors in the ICT sector to effectively execute their roles

- Boards of Directors in ICT listed companies have good working relations with their management

- Boards of Director in ICT listed companies mostly have diversity on their Boards. Board diversity was seen as one of the most crucial best practices

- Governance best practices in the listed ICT companies were found

to be similar to those of other sectors

There were, however, two differences between the academic literature and the research findings. These marked differences were mainly on issues of Board size and CEO and Chairman Duality. One could perhaps attribute the differences to the fact that the South African business landscape is informed by specific codes of best practices which are advocated by the King Reports, among others. In addition, the best practices identified by the research report will be useful to Boards of Directors in the ICT sectors that are looking to increase and maintain Board effectiveness notwithstanding meeting stakeholder expectations.

It is, therefore, in the best interests of Boards of Directors in the ICT sector to adopt the identified best practices in order to assist them to build sustainable and effective Boards.

6.3 Recommendations

Boards of Directors in ICT listed companies are in a difficult position as they have to ensure that their Boards are well functioning to enable their companies to remain sustainable in the long term. There are a number of best practices that have been identified by this research which can, arguably, assist Boards of Directors in listed ICT companies to better execute their roles. These best practices, which should be adopted by all firms in the ICT sector include:

Good Corporate Governance

- Ensure that Boards of Directors understand the benefits of good corporate governance
- Boards of Directors in ICT listed companies should not view corporate governance as merely a compliance issue but rather as a mechanism that will help them achieve a sustainable atmosphere of growth, good operational and stock market performance

Roles and Responsibilities of the Board

- Boards of Directors need to be made aware of their roles, deliverables and responsibilities. This is essential for the proper functioning of a Board as a whole

- In addition, it is imperative for ICT listed companies to provide continuous refresher sessions for all Boards of Directors which also cover new changes in laws and best practices

CEO and Chairman Duality

- The roles of CEO and Chairman need to be separated. Separation of duties contributes to greater effectiveness of the Board and it strengthens oversight of the company and accountability

- Independence of the Chairman and CEO ensures objectivity on the Board

- In addition, CEO and Chairman duality is one of the best practices recommended by King III. It is therefore in the best interest of ICT listed companies to adhere to this best practice

Board composition and Structure

- Ensuring independence of a Board is equally important in order to achieve maximum effectiveness and accountability. The independence of the Board can therefore be achieved and maximized by ensuring that the majority of directors are non-executive and independent

- Boards in the ICT sector should ensure a majority of non executive and independent directors as this enhances strategic debate and discussion on the Board

Board Size

- Board size should be relatively small. It is important to have just

enough directors covering the skills and experience base required for proper performance of its duties

- A smaller Board is also easier to coordinate and allows for every Board of Director's opinion to be heard and assessed

Board Processes

- Efficient Board processes are critical in creating a climate of productive director participation in the business of the Board.

- A good Chairman is equally important, one who can facilitate robust engagement and have the ability to manage constructive conflict

- Boards of Directors in the ICT listed companies need to benefit from views that are constructive

Board Committees

- It is good best practice to have Board committees that are specialized on specific Board duties by fewer, more relevant skilled directors. This will result in more efficient and more productive outcomes

- Board committees are critical in ensuring that Boards of Directors are conversant with what is actually going on in a company from a liability point of view

Relationship between Board of Directors and Management

- A good relationship between the Board and management is crucial for the effectiveness of the Board as management is mostly concerned with the daily activities of the business and the Board depends on management for execution of decisions and provision of information

Board Diversity

- Diversity should be adopted by all Boards in the listed ICT companies as it improves effectiveness. More importantly, it is good for competitive advantage

Adoption of best practices should not be seen as a compliance obligation but rather as a means to not only creating effective, well functioning Boards, but also as a means to ensure sustainable company performance and success.

6.4 Suggestions for Further Research

There were a number of limitations that were experienced during the course of this research, which created more questions than answers for the researcher. Henceforth, this provided a gap for further research in this field. Possible further research could look into the following:

- So far, there has been no concrete model that has linked Board performance to Board effectiveness, there are documented best practices but there is no formal model that links these practices to a formalized model. There is therefore scope for such a model to be developed in future

- The South African business environment is generally different from that of Europe and the USA. Henceforth, a majority of documented literature on the subject of best practices has been informed by the Europe and USA experience. It would therefore be advisable that more Board and governance research as it relates to the South African context be carried out

- A model that captures the effect on a company's financial performance once they have adopted best practices

- Exploration of best practices of other sectors and seeing if there are any commonalities with the ICT sector

Future research could certainly make use of the best practices that have been documented in this research in order to continue adding to the body of knowledge in this area.

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APPRENDIX A

Letter to Respondents

Dear Respondent,

I am completing my MBA at the University of the Witwatersrand, Johannesburg (Wits Business School). As part of my degree I am writing a research report on effective Boards of Directors of JSE listed companies in the ICT sector in South Africa. Towards gathering data on this subject, I would be grateful if I could arrange a one hour interview with you to understand your Board of Directors experience at your company. I understand that you are extremely busy and your agreement to contribute to my research is greatly appreciated.

The interview will primarily focus on your experience as a Board Member of an ICT company and the characteristics needed to ensure Board effectiveness in such companies. Confidentiality will be observed throughout the research process and the final report will be for academic purposes only.

I will be able to meet you at a location and time of your convenience.

Thank you for your kind assistance.

Yours sincerely,

Rita Sikhondze

Contact number: +27 82 769 1846

APPENDIX B

Actual Research Instrument

Semi structured Interview Questions:

Question 1

What are your views on good corporate governance where shareholder and investor confidence are concerned?

Question 2

Do Boards of Directors on your Board have clear guidelines on what their role and responsibilities are on the Board?

Does that have any effect on how the Board functions?

Question 3

What are your thoughts on CEO and Chairman duality?

Would you argue that there is a direct correlation between CEO and Chairman duality and Board effectiveness?

Question 4

What is the split between non-executive and executive directors?

Does the split have any effect on Board effectiveness?

What numbers of outside and executive directors would you say is optimal to ensure that a Board functions successfully?

Question 5

What is the size of your Board?

Would you say that the size of a Board affect the performance of the board? If yes, how?

What in your view would be the optimum size of a Board?

Question 6

Would you say that Board processes were efficient?

Does constructive conflict amongst Board members make a Board more effective? If yes, how?

Question 7

Does your Board have Board committees?

If yes, how would you say Board committees affect Board effectiveness?

Question 8

Are Board recruitment and Board development programmes prominent on your Board?

If yes, how would you say this affects the way in which the Board functions?

Question 9

How would you describe the relationship between the Board of Directors and the company's management?

How has it affected Board effectiveness?

Question 10

Please describe diversity on your Board and how that has affected the Board's performance

Question 11

Would you argue that Board best practices in the ICT sector would be different from those of other sectors? If yes, how?

Please list any other best practices that may have not been covered by the aforementioned questions.

APPENDIX C: LIST OF RESPONDENTS

1. **Paracon Holdings Ltd**

   Non executive director

   Non executive director

2. **Data centrix**

   Independent director

   Independent director

3. **Vodacom Group (Pty) Ltd**

   CEO Vodacom-DRC

   Company Secretary

4. **Altech**

   Independent Non Executive Director

   Altech Motomo-Technical Director

5. **Telkom**

   Non executive Director

   Non executive Director

6. **MTN Group**

   Consultant Company Secretary

7. BCX

CEO

8. Gijima AST

Non-executive Director

Non-executive Director