The trade-off between compliance and value in South African company boards

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Abstract

This study examines the role of the board of directors of companies in various industries in South Africa with regard to the future strategy of the organisation. Specifically in the backdrop of an environment where there is increased focus on the internal controls within organisations due to the guidelines around effective corporate governance, the goal was to ascertain whether the board still focuses on the future value of the organisation.

One of the propositions tested as part of this research states that the board is in fact only focused on internal controls and does not provide sufficient input to the strategic thinking process about the future direction of the organisation.

Semi-structured interviews were conducted with directors of companies in order to establish the role that the board fulfils in that company and whether there is a balance between creating value on the one hand and mere compliance on the other. Content analysis was performed on the transcribed interviews. Due to the fact that convenience sampling method was used, there were more executive directors on the list than non-executive directors. The findings were interesting and shed light on the actual role that the boards are playing in large public companies in South Africa. An interesting finding was the fact that there was such a large difference in the involvement of executive directors as opposed to non-executive directors and that the executive directors generally seemed to discount the value that the non-executive directors contribute to board decisions, providing a topic for interesting further research.

It was generally found that the propositions that formed the basis of this research held true in the cases that were reviewed. In South Africa the executive directors tend to act autonomously in the directing and controlling

of the companies in which they operate, with mere ratification from the full board of directors and insufficient involvement from the non-executives in the strategic thinking process.

The strategic scorecard that was developed by CIMA is a useful tool that should be used by companies' boards in order to ensure that they spend sufficient time focusing on the strategy and the future direction of the organisation. The scorecard covers all aspects of strategy at the appropriate level of involvement that is required from the board to ensure that they monitor and oversee the strategy development and implementation processes effectively.

Declaration

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

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1 Introduction

"How to strike the balance between strategy and compliance – that is the question. And whether, by ignoring one at the expense of the other, the result is an untimely death, or at least a very sick enterprise." (Birchfield, 2004:1)

It is possible that the drive towards good governance could lead companies' boards of directors to be so internally focused on the organisation and so aware of having to implement effective controls, that they fail to spend time to focus on the evaluation and improvement of the strategy of the company, neglecting the directional guidance that the organisation requires from this long term planning process. Felton (2004) points out that there is a renewed drive to make directors more independent and accountable in terms of the requirements of good corporate governance. This drive lends itself to the possibility that boards will spend even less time focusing on creating future strategic and business value for the organisation.

In their research study based in New Zealand, Ingley & Van der Walt (2001) suggest that there is a need to explore the extent to which the board has a strategic role in value creation as well as the level of directors' participation in the strategy and corporate governance processes of organisations.

1.1 The Purpose of the Study

The purpose of this study is to identify whether there are processes in place to ensure that boards of directors of companies engage in activities that provide value to the company and do not only focus on ensuring that internal controls are put in place to comply with the guidelines or legislation, where applicable, for effective corporate governance.

1.2 The Research Problem

The research problem is to identify the processes that have been put in place, if any, to engage a company's board of directors in activities that provide value to the company and to ensure that business value is not lost as a result of the focus on compliance with the principles of corporate governance.

1.3 The Sub-problems

a) How can boards of directors ensure that business value is not lost as a result of the focus on compliance with the principles of corporate governance?

b) Which processes (if any) are in place to engage the board in activities that provide value to the company, without management giving up its prerogative to manage and run the company?

1.4 Limitations and Delimitations

This research will only focus on the area of corporate governance and will evaluate the effect it has on good strategic management of the company. The research will not take the additional regulations that government organisations need to adhere to into account and will focus only on organisations in the private sector.

The study includes both executive directors and non-executive directors of the board. The study will be limited to directors of companies listed on the

JSE Securities Exchange or subsidiary companies and associate companies of these listed companies, where there is a demand for visible compliance with corporate governance. However, the results of the research will also be relevant and applicable to boards of directors of private companies and these companies will benefit from the study.

Only directors of companies operating in Gauteng province will be considered, for convenience purposes.

1.5 Significance

There is much debate regarding the changing role of directors and whether they are providing business value to organisations. The purpose of this study is to explore the questions in paragraph 1.3 above in the South African context.

This study will also provide guidance to boards of directors regarding the future level of involvement required from them to ensure that they add value to the organisation. The learning provided by the sample of the research may promote a better understanding of similar issues for other companies' boards (Leedy & Ormrod, 2001).

1.6 Assumptions

The following assumptions are made for purposes of the proposed research:

The interviewees will have the knowledge that is required to enable the researcher to obtain adequate information for purposes of the proposed research.

The sample of interviewees will be representative to indicate the general behaviour of boards of directors of public companies in the South African environment.

2 Literature Review

2.1 Introduction

In this chapter the literature that was used to derive the propositions against which the research will be conducted is outlined. It sets out with an introduction to the background of the need for companies to focus on corporate governance worldwide, covering the various reports that have been published to provide guidance to companies in this regard.

What follows is an evaluation of what is expected of the board in the process of strategy development. The role of the board in general is then determined as well as the need to actively engage the board in the strategy process of the organisation. The literature related to the board's responsibility to not lose focus on business value when paying attention to compliance with corporate governance guidelines is also discussed.

The next section of the literature review sets out the framework for exploring the elements of the strategic scorecard that was developed by CIMA, in order to evaluate during the research whether this will be applicable in the South African context.

The literature review concludes with a summary of the academic opinions discussed in this review, covering all aspects of the study. The literature review ensures that a foundation is set in place for the research which aims to explore the propositions that form the basis of this study.

2.2 Corporate Governance Background

In 2002 the Sarbanes-Oxley Act was promulgated in the United States of America. “The effect of this is that good corporate governance is not a nicety anymore – it is the law.” (Deloitte & Touche, 2003) Although a similar act has not been promulgated in South Africa, South African companies with listings on US stock exchanges, such as Sappi, Telkom and Sasol, have to comply with the requirements of Sarbanes-Oxley. In terms of Sarbanes-Oxley, senior financial officers are required to “conduct themselves honestly and ethically, particularly in handling actual or apparent conflicts of interest; provide full, fair, accurate, timely and understandable disclosure in the periodic reports their employers file with the SEC; and comply with all applicable government laws, rules and regulations” (Myers, 2003:28). Sarbanes-Oxley was initially viewed and regarded as an unnecessary overhead to organisations – in particular the provisions contained in Section 404 which require that management keep and maintain a sound internal control structure for financial reporting (Wagner & Dittmar, 2006). However, Wagner & Dittmar (2006) realised that many companies have now ended up using Sarbanes-Oxley to their advantage, by using it to decrease costs of compliance and ensuring increased operational control within the organisations.

The second King Report on Corporate Governance for South Africa (2002) (also referred to as King 2) has not been legislated, but provides guidance and recommendations to companies on appropriate governance principles in the South African environment. Companies that are listed locally on the JSE securities exchange are expected to comply with the guiding principles that are set out in the King 2 report (2002) that was published in South Africa. In terms of the King 2 report, company directors need to drive the implementation of and compliance with sufficient internal controls to ensure effective risk management.

The first King report (1994) followed the publication of the Cadbury Committee Report on Corporate Governance (1992) that was developed in the United Kingdom. The Cadbury Report (1992) provided some recommendations regarding the composition and the role of the board of directors to ensure effective corporate governance, one of which stated that the Board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions.

The Cadbury report (1992) focused largely on the financial aspects of corporate governance in the United Kingdom and any reference in the report to internal control, in line with the traditional view, was initially interpreted as being mainly focused on only internal financial control. Zaman (2001) points out that the Turnbull report (1999), released subsequent to the Cadbury report (1992) and offering guidance for directors of listed companies incorporated in the United Kingdom, provides a positive move away from this narrow interpretation and states that internal control should be interpreted in a wider context and includes controls around business, operational, financial, compliance and other risks.

Belton (2004) agrees with Zaman (2001) about the fact that Turnbull (1999) is providing a wider interpretation of internal control and points out that risk now includes all forms of risk, not only financial risk and he is of the opinion that a culture of risk awareness within an organisation will lead to improved overall business performance of that organisation.

According to Gerrard (2003), organisations that are proactive in their risk management approach at all stages do not only reduce the chances of facing corporate and personal penalties, but also afford themselves a competitive advantage in the process. However, Belton (2004) warns organisations against being so intent on checking and controls that they end up stifling employees' productivity because of the fact that the employees live in fear of blame.

Jonk & Schaap (2004) concede that the board's role is not to get so deeply involved to the extent that they manage the resolution of each risk, but they recommend that the board should help identify risks to ensure that management are able to mitigate the company's risk.

In agreement with the above view of the importance that the board gets involved in identifying risks, Atkinson & Salterio (2002) note that despite the increased emphasis on the requirement for effective corporate governance, most organisations have been unable to effectively implement corporate governance practices. They believe that one of the reasons is the fact that directors have been reluctant to get involved in strategic management initiatives and to question these initiatives put forward by management.

2.3 The role of the board with regard to corporate strategy

Some of the guidelines that are provided in the King 2 Report (2002) regarding the structure and the roles and responsibilities of the board of directors are the following:

- "the unitary board structure with executive and non-executive directors … remains appropriate for South African companies;
- the board must give strategic direction;

- the board must … monitor management in implementing board plans and strategies;
- every board should consider whether or not its size, diversity and demographics make it effective;
- the board should record the facts and assumptions on which it relies to conclude that the business will continue as a going concern … or … what steps the board is taking to remedy the situation;
- the board must find the correct balance between conforming with governance constraints and performing in an entrepreneurial way".

The guidelines contained in the King 2 Report (2002) are used as the basis for the remainder of the discussion regarding the role of the board of directors.

2.3.1 Board Structure

The literature indicates that the structure of the board of the organisation could contribute to the actual role that the board performs in the strategy process of that organisation. In South Africa the board structure that is generally favoured by companies is the unitary board structure, similar to British and American organisations. This structure is also recommended in the King 2 Report (2002) as part of the guidelines of the roles and responsibilities of boards of directors set out above.

Spisto (2005) points out that one-tier or unitary board structures require the non-executive directors to provide sufficient independent judgement and monitoring in order to "raise the standards of good corporate governance" (Spisto, 2005:87) as the board is fulfilling two functions that are incompatible.

In terms of the unitary board structure the board needs to be the supreme executive body of the organisation as well as the supervisory organ.

Turnbull (2002) refers to the five components of the functions and activities of a unitary board as presented by Tricker (1994, 245 & 287) set out in Figure 1 below:

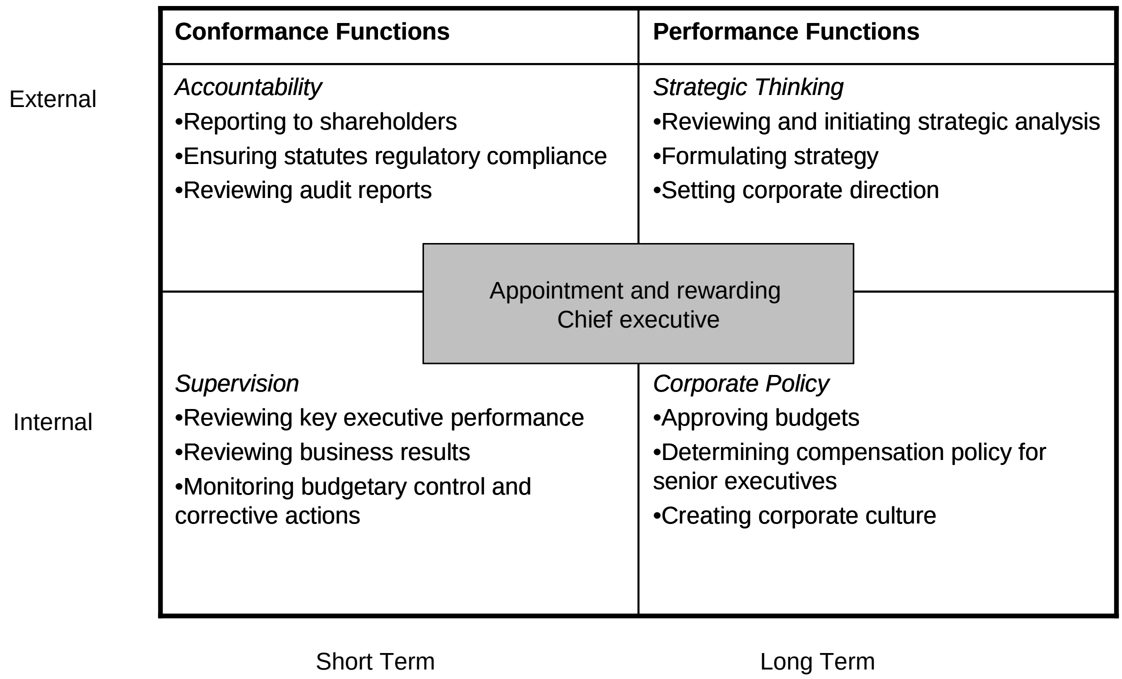

Figure 1: Functions and activities of a unitary board (Tricker:1994, 245 & 287)

Spisto (2005) suggests that the two-tier board system, used in Germany, is the more appropriate structure for South Africa. In terms of the two-tier board structure, consisting of a supervisory board and a management board, the supervisory board's independence and strength is constantly enhanced (Spisto, 2005). The main function of the management board is to manage the company, where the function of the supervisory board is to supervise management. This structure ensures that the CEO is appropriately monitored and the supervisory board is able to focus on preventing any mistakes by management.

Turnbull (2002) goes further than the two-tier board system and looks at the Mondragon compound board, which demonstrates how the business complexities are able to be broken down into smaller and simpler units. Here we don't only have a management and a supervisory board, but also a watchdog council to monitor the integrity of the governing processes, a social council and a work unit. In Figure 2 below the function and activities of a compound board are broken down into component parts based on the research done by Whyte & Whyte (1988).

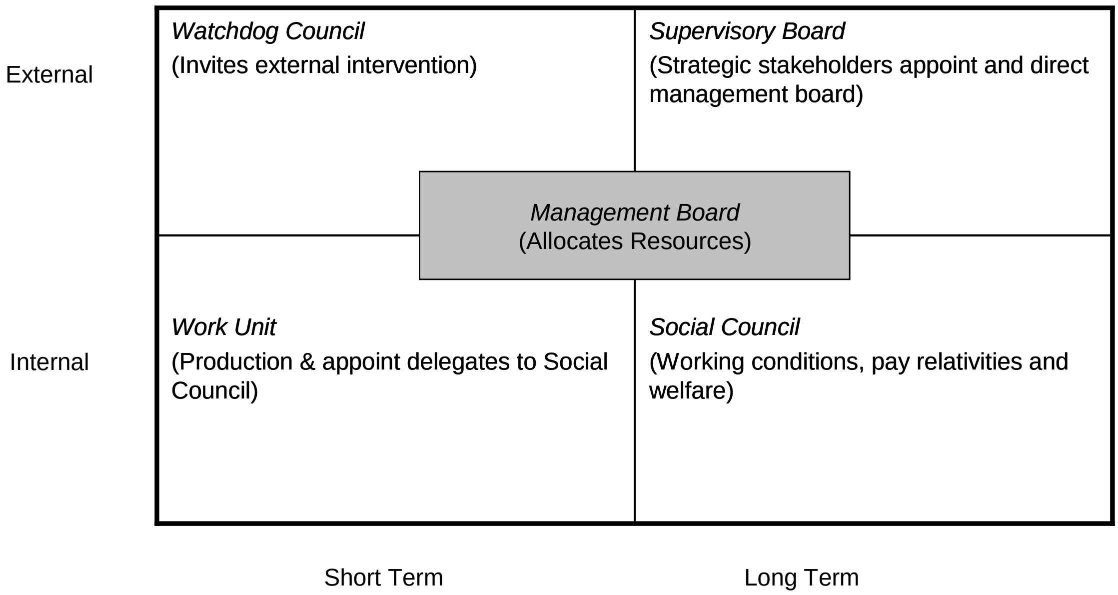

Figure 2: Functions and activities of a Mondragon compound board (Whyte & Whyte, 1988)

The two-tiered board structure is not the structure favoured by the Department of Trade and Industry in South Africa and the department holds the view that this type of board structure is inefficient (Spisto, 2005). Spisto (2005) argues that efficiency is in actual fact increased by the two-tiered board structure, as the functions of supervision, as opposed to direction and management are identified as separate requirements and are made the responsibility of two separate groups.

Ingley & Van der Walt (2001) highlight the dynamics of director selection, board evaluation and performance to develop measures of board effectiveness by drawing key elements of corporate governance from the literature. They illustrate the model of the strategic board in figure 3 below, where the areas relating to the strategic board are in the shaded area.

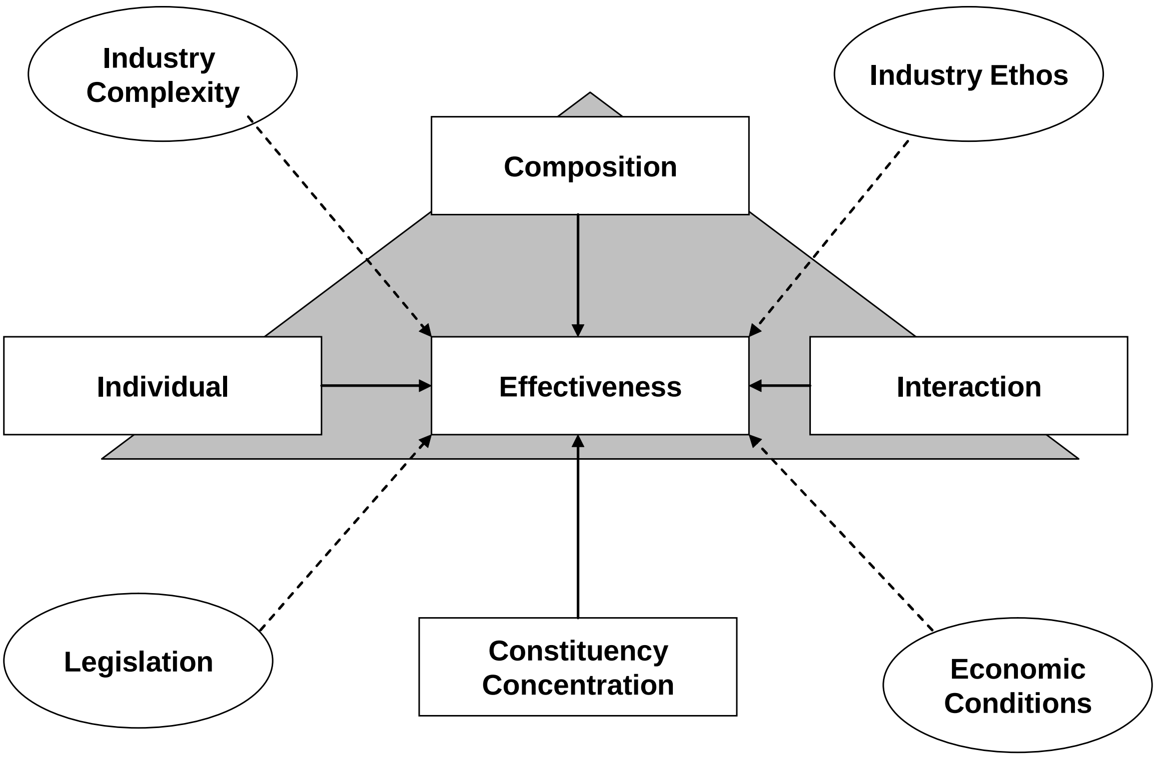

Figure 3: The Strategic Board (Ingley & Van der Walt, 2001)

Ingley & Van der Walt (2001) conclude that there is a need for boards to focus on the strategic issues of a company as a result of the demands for higher corporate performance, especially in an environment of increasing strategic change and uncertainty.

2.3.2 Board Demographics

The principles of corporate governance require that the roles of chairman of the board and the chief executive officer (CEO) of the company be split. Many companies appoint a large proportion of non-executive directors to ensure that an impartial view of the company's compliance with corporate governance is obtained. Pass (2004) emphasises the importance of the role of non-executive directors and mentions that they are seen as the guardians of the corporate good within an organisation and act as buffers between the executive directors and outside shareholders.

In a further attempt to define and clarify the role of boards with regard to corporate strategy, Ingley & Van der Walt (2001) note that the views or perceptions regarding the role of the board can be illustrated on the following continuum:

Traditional Perception	**Evolved, liberal view**
• Approving • Monitoring strategy • Reviewing strategy	• Leadership role • Active involvement in: o Establishing goals and values o Setting direction

Figure 4 (Ingley & Van der Walt, 2001)

In between the two ends, are views that provide a middle ground, where the role of the board is seen to be a combination of the two extremes and viewing the board as being more active than purely approval and less active than actually engaging in the strategy making process (Ingley & Van der Walt, 2001).

2.3.3 Strategic Direction

The continued focus on corporate governance compliance results in a situation where the board of directors is not taking the opportunity to get involved in the strategy making process of the company. Nadler (2004) states that one of the reasons is that CEO's rely on the board only to ensure that the company is well run.

The role of the board has traditionally been to govern the organisation and to be responsible to the shareholders (Oliver, 2000). Oliver (2000) goes further and states that there is little prescription or common practice to direct the board to its proper role in the strategy of the organisation.

In the United States there are generally three views regarding the role of the board (Felton, Hudnut & Witt, 1995). Felton, Hudnut & Witt (1995) describe the three views as follows: The first is that the board is purely there in a strictly advisory role, whereas the second view is that the board needs to get involved where there is a crisis or where some external event requires this. The third view, however, is that an independent, involved board can provide improved company performance and benefit the company in the long term. This supports the definition of an evolved, liberal view of the role of the board according to the continuum drawn by Ingley & Van der Walt (2001) depicted in figure 4 above.

In terms of one of the recommendations made in the Cadbury report (1992) it is stated that the Board should have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the company is firmly in its hands. We could argue in this case that the direction of the company includes reference to the strategy and future value of the company.

2.3.4 Balance Governance and Entrepreneurship

Taylor (2003) mentions that there needs to be a balance between corporate governance on the one hand and entrepreneurship on the other in the leadership style of the board. Taylor (2003) further points out that the desired state of the leadership style that the board should display be one of corporate entrepreneurship. The various board leadership styles that Taylor (2003) refers to are set out in the matrix below:

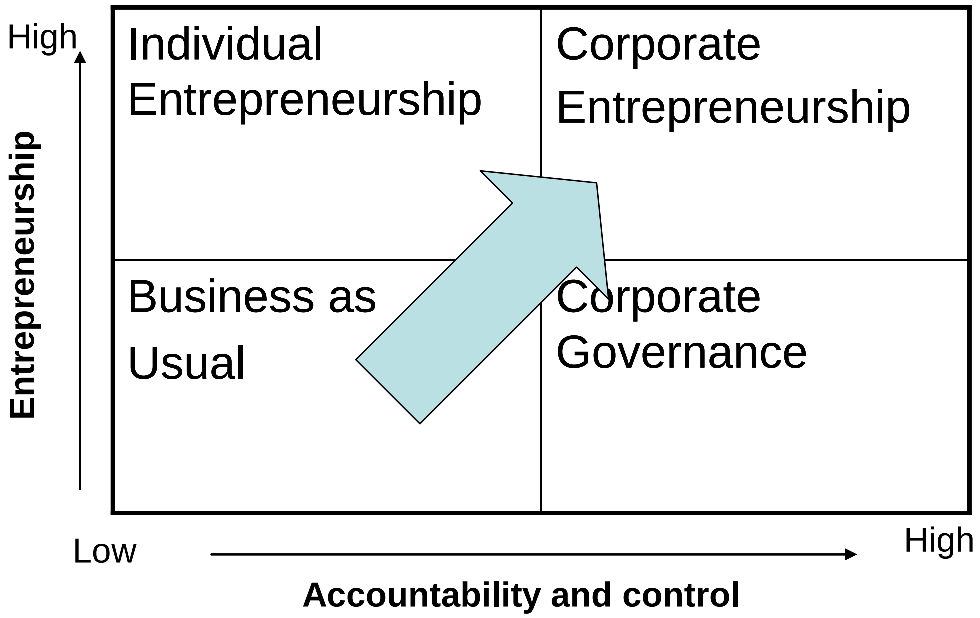

Figure 5 (Taylor, 2003)

Zahra (1996) also refers to the importance of the corporate entrepreneurship and mentions that corporate entrepreneurship incorporates both strategic renewal and innovation, aimed at business creation and venturing. These concepts are taken from the conclusion made by Guth and Ginsberg (1990), stating that strategic renewal and innovation are the two dimensions of corporate entrepreneurship.

2.3.5 Managing the Implementation of Strategy

Oliver (2000) evaluates the required level of board involvement and believes that the level of board involvement needs to be tailored for each organisation, depending on the specific dynamics of that organisation. He believes that the involvement will be reactive, interactive, inactive or proactive and it will differ from company to company (Oliver, 2000).

In companies where the board is reactive, it generally spends its time reviewing plans set out by management and offer opinions in this regard (Oliver, 2000). Ziemba & Westman (2004) also refer to this role as the oversight board, spending its time focusing on compliance and emphasising the development of checks and balances.

Oliver (2000) then looks at the inactive board which he describes as one where management's plans are only approved and where there will be no participation involved.

However, where a company has an interactive board, the board actually engages and works with management and provides active contributions (Oliver, 2000). This approach is described by Ziemba & Westman (2004) as the active governance board, where strategies and corresponding goals are actually established by the board.

Oliver (2000) lastly describes the proactive approach as one where the board is so active in the strategic planning and processes, that they are actually seen to be the top-level strategy group within the organisation. Referred to as the value-creating boards, Ziemba & Westman (2004) describe the tasks of the boards that follow this approach as maintaining a clear strategic focus and providing competency-based advice.

Atkinson & Salterio (2002) use the draft scorecard that was developed by the Ontario Teachers' Pension Plan to evaluate the organisation's governance processes. In accordance with this scorecard, the governance process should be evaluated in five ways, of which the first way is as follows:

- "Effective board of directors that truly governs, not micro-manages.
    - Independent board and separation of board chair/CEO
    - Committees created and staffed with a majority of knowledgeable independent directors
    - Procedures/planning process of board includes evaluation and monitoring of all senior executives and strategic planning." (Atkinson & Salterio, 2002, 27)

Oliver (2000) concedes that there is no "perfect spot" (Oliver, 2000:9) and that the approach of the board can also be a combination of the four described above. Companies will usually choose a direction somewhere between the extremes, in order to limit possible risk that may arise where management are not involved at all in setting the strategy. Oliver (2000) concludes that he is of the opinion that the level of board involvement should ideally be somewhere between the extremes and that the board should occupy the middle ground where strategy making is concerned. He goes further to point out that it is therefore not desirable that the former CEO remain on the board too long, as this may lead to the board getting too involved in the detailed execution of the strategy (Oliver, 2000).

2.4 Engaging the board in strategy

In view of the dilemma that most boards face regarding their required level of involvement in strategy making, Nadler (2004) has developed a framework of the specific tasks and roles that he believes the board should take on in respect of corporate strategy.

In developing the framework he has divided strategic activity into strategic thinking, strategic decision-making, strategic planning and strategic execution. Based on each one of these forms of strategic activity, he distinguishes between the suggested roles of management as opposed to the role of the board in corporate strategy development. This distinction is set out in the matrix below:

Description of task	Role of the board	Role of senior management
Strategic Thinking	• Active participant • Outside perspective • Test consistency of management thinking • Collaborate with management	• Initiate strategic thinking process • Set agenda • Provide information • Actively participate in discussions • Summarize the output
Strategic Decision making	• Provide input • Provide ultimate review and approval on major	• Make critical decisions • Develop proposals to the board for critical decisions and

Description of task	Role of the board	Role of senior management
	decisions	major resource allocation • Engage with the board in review of decisions
Strategic Planning	• Review core strategic plans • Ensure understanding of plans, risks and consequences • Comment and make suggestions on plans • Approve plans	• Develop plans with support from staff and operating management • Review plans & ensure consistency with corporate objectives and strategy • Present plans to the board for review
Strategic Execution	• Review process and progress of implementation of key initiatives against milestones and objectives	• Ensure resources and leadership for execution are in place • Monitor progress of execution • Make changes in either execution or plan, depending on outcomes

Figure 6 (Nadler, 2004)

The matrix above illustrates that the board should be involved in the strategic planning process in an advisory role to give guidance to senior management. Where execution is required, the role of the board is merely to monitor the progress and to once again provide guidance to senior management where required. This level of involvement enables the board to identify and avoid or manage organisational risk.

Scherrer (2003) agrees with this view and points out that the board is only in fact able to sign off the financial information and endorse the accuracy thereof in circumstances where they have been involved in the strategic decision making process of the organisation.

Felton, Hudnut & Witt (1995) recognise the importance of keeping directors informed of general company affairs, but emphasise that they especially need to be aware of the strategy of the organisation in order to monitor and evaluate the strategy and the successful implementation thereof on an ongoing basis. This is in line with the definition by Oliver (2000) of the interactive board.

Nadler (2004) goes further and suggests that there are five requirements that organisations need to consider to ensure effective board engagement in strategy:

- Balanced but diverse board composition
- An engaged executive team
- The CEO as a process leader
- An open and constructive board culture
- Board accountability.

Nadler (2004) believes that the above prerequisites will "set the stage for value-added participation" (Nadler, 2004:32). We will now take a closer look at each one of the above requirements.

2.4.1 Balanced but diverse board composition

Here Nadler (2004) emphasises the importance of independence and argues that a truly independent board of directors will have the ability to raise questions during the decision making process. Scherrer (2003) also believes that the composition of the board should be balanced but diverse and goes as far as stating that there is a higher chance of organisations experiencing financial failure where the board is comprised of a lower proportion of outside directors and where the CEO also acts as chairman of the board.

However, Atkinson & Salterio (2002) warn that independence will not necessarily mean that the board will question management decisions, as questioning of management decisions depends on more than one member of the board perceiving the problem. In this instance they refer to the effects of common information bias, group norms and group think on the board's decision making process. These behavioural dynamics can be problematic for effective board discussions and debate and are expanded upon in the next paragraph below.

Common information bias occurs where information that is commonly held by a core group within the board will more likely be the focus discussion of the group and unique information, held by one group member, will get lost in the process – even where the group member holding the unique information is an expert in that specific field. Group norms refer to the pressure to conform to majority decisions within the board and group think, which also refers to conformance to a group perspective, often develops in corporations that have been successful for long periods of time.

Atkins & Salterio (2002) point out that it is important for the chairman of the board to be aware of these behavioural dynamics and the effects that they may have on the decision making process of the board in order to take active steps to avoid any possible detrimental effects.

The first King Report (1994) recommends that the board consists of a balance of executive and non-executive directors and the later King Report (2002) recommends that no single block of directors should dominate the board. In South Africa the tendency is towards the adoption of a unitary board, where functional executive directors are led by the CEO or managing director (Garratt, 1997). The King Report (2002) even goes further to recommend that the board should preferably consist of a majority of non-executive directors, independent of management.

Dalton & Kesner (1987) also point out that the ratio of non-executive directors to total directors could be seen as an indicator of the board's independence.

Where a state of corporate entrepreneurship is required, Zahra (1996) points out that increasing the number of outside directors on a board will actually promote corporate entrepreneurship, as it gives outside directors an incentive to monitor the CEO of the organisation.

2.4.2 An engaged executive team

Here Nadler (2004) recommends that the board spend time participating with the management team in order to understand their perspectives and to become aware of the capabilities of the management team.

Atkinson & Salterio (2002) agree with this recommendation and state that the board has an important role to play in advising senior management and assessing strategic initiatives.

Scherrer (2003) concurs and points out that the board needs to be able to identify warning signals of financial distress in the company and he believes that the directors will only be able to understand these warning signals where they are more involved with the management of the organisation.

2.4.3 The CEO as a process leader

What Nadler (2004) means by engaging the CEO as a process leader in the organisation, is that the CEO needs to be open to new and different ideas and input from others, by actively soliciting input from other directors during the strategy making process.

In the King 2 Report (2002) it is pointed out that corporate governance is essentially about leadership and more specifically stated that it is about "leadership that is both transparent and accountable because otherwise business leaders cannot be trusted and this will lead to the decline of companies and the ultimate demise of a country's economy" (King, 2002:19).

Scherrer (2003) argues that this once again illustrates the need for outside directors, who are able to provide access to valuable resources and information for the benefit of the organisation.

Hsieh & Yik (2005) caution that a company will not be able to translate their strategy from a mere concept to reality in a case where the CEO does not act as process leader and where the company is experiencing a leadership gap. Where the CEO is in actual fact performing as a process leader, he/she will take the responsibility for the performance of the company as dictated by the board's overall strategy (Felton & Wong, 2004).

2.4.4 An open and constructive board culture

Here Nadler (2004) refers to the importance of different viewpoints and constructive contention at board level during the decision making process. This leads us again to consider the point that Atkinson & Salterio (2002) make regarding common information bias, discussed in 2.4.1 above. The fact that there has been a move towards board downsizing could lead to a situation where the pool of expertise amongst directors has been limited, which causes a situation where the directors' discussions are focused around common viewpoints. (Atkinson & Salterio, 2002) Boards of directors should be aware of the situation that Atkinson & Salterio (2002) refer and should strive at all times to promote an open board culture where all directors' expertise is shared.

In South Africa, where most companies have unitary boards, there is a danger that the board receives erroneous or limited information upon which decisions are made, or that there is not sufficient "variety in control to manage complexity" (Turnbull, 2002:275).

2.4.5 Board accountability

Nadler (2004) states that the increased focus on the accountability and the visibility of boards of directors support the idea that the board needs to believe that they have a responsibility regarding the company's strategy as well as the successful implementation thereof.

According to Chong (2004) a company can only manage its risk effectively where there is an appropriate management structure for monitoring strategy and identifying strategic errors.

Atkinson & Salterio (2002) warn that the role of the board is not to interfere with the activities of the CEO, but rather to provide a sounding board in the development of company strategies and ideas.

Garratt (2003) points out that the regulations and recommendations around board accountability have forced the boards to be more aware about their competencies, values, ethics and media technologies to effectively display their accountability. "All in all, being accountable is an awesome set of responsibilities for the board," (Garratt, 2003:136). The King report (2002) points out that boards and regulators should be encouraged to censure the directors that are found wanting in their fiduciary obligations.

2.5 Focus on business value, not only compliance

2.5.1 Background

Sussland (2004) refers to a statement by William W. George, director of Novartis and Goldman Sachs, who said that avoiding prison should not be the objective of the board of directors and that it should rather be to build strong enterprises. Oliver (2000) supports this view and states that the board has an important role to play in building a successful organisation by ensuring that the right people are in place to execute the organisational strategy.

Carlsson (2002:4) simplifies the essence of corporate governance as follows: "Corporate governance is very simple. It is about ownership. To own is to care." This statement puts the elements of corporate governance into perspective in that caring is not only about putting controls in place to govern organisations, but Carlsson (2002) goes further to state that it involves a concern for sustainable value creation.

Sussland (2004) then explains the two functions of the board being to oversee strategic planning and to ascertain that adequate value is created. Atkinson & Salterio (2002) concur with this view and add that the role of the board in reviewing the strategy is to provide independent advice to management based on its expertise as well as to provide a clear, independent and credible voice in providing constructive criticism to the CEO and the management team of the organisation.

In assisting boards of directors to balance the corporate governance and the performance management aspects of the organisation, Lees (2004) identifies the strategic scorecard, discussed in more detail below and developed by the Chartered Institute of Management Accountants (CIMA), as a potentially valuable strategic management framework. Lees (2004) maintains that corporate governance is not a sufficient foundation for long-term sustainable success in an organisation.

Carlsson (2002) also believes that the focus around corporate governance should be on business prosperity and not only on formal accountability, as focusing on formal accountability is not sustainable. According to Carlsson (2002) the board should focus on strategic governance in its corporate governance practices. The role of the board is therefore to ensure that the organisation is efficient in creating value (Oliver, 2002).

Lees (2004) further states that companies must not lose focus of the fact that they need to put the right strategies in place to create long-term wealth. As a result CIMA has coined the phrase enterprise governance to cover both corporate and business governance aspects, where corporate governance deals with the accountability and assurance issues and business governance refers to the elements of value creation and resource utilisation.

Taylor (2003) prefers to use the term corporate entrepreneurship. This refers to a board leadership style that combines elements of entrepreneurship with that of accountability and control as illustrated in Figure 2.

In the circumstances where there is an evaluative structure in place to measure the activities of the board, these tend to focus purely on the composition and the characteristics of the board (Atkinson & Salterio, 2002). Atkinson & Salterio (2002) are of the opinion that these board evaluations or scorecards should focus on the results that the board accomplishes, which is what the elements of the strategic scorecard attempt to address.

2.5.2 Elements of the strategic scorecard developed by the Chartered Institute of Management Accountants (CIMA)

The CIMA strategic scorecard has four basic elements:

- The strategic position
- Strategic options
- Strategic implementation
- Strategic risks.

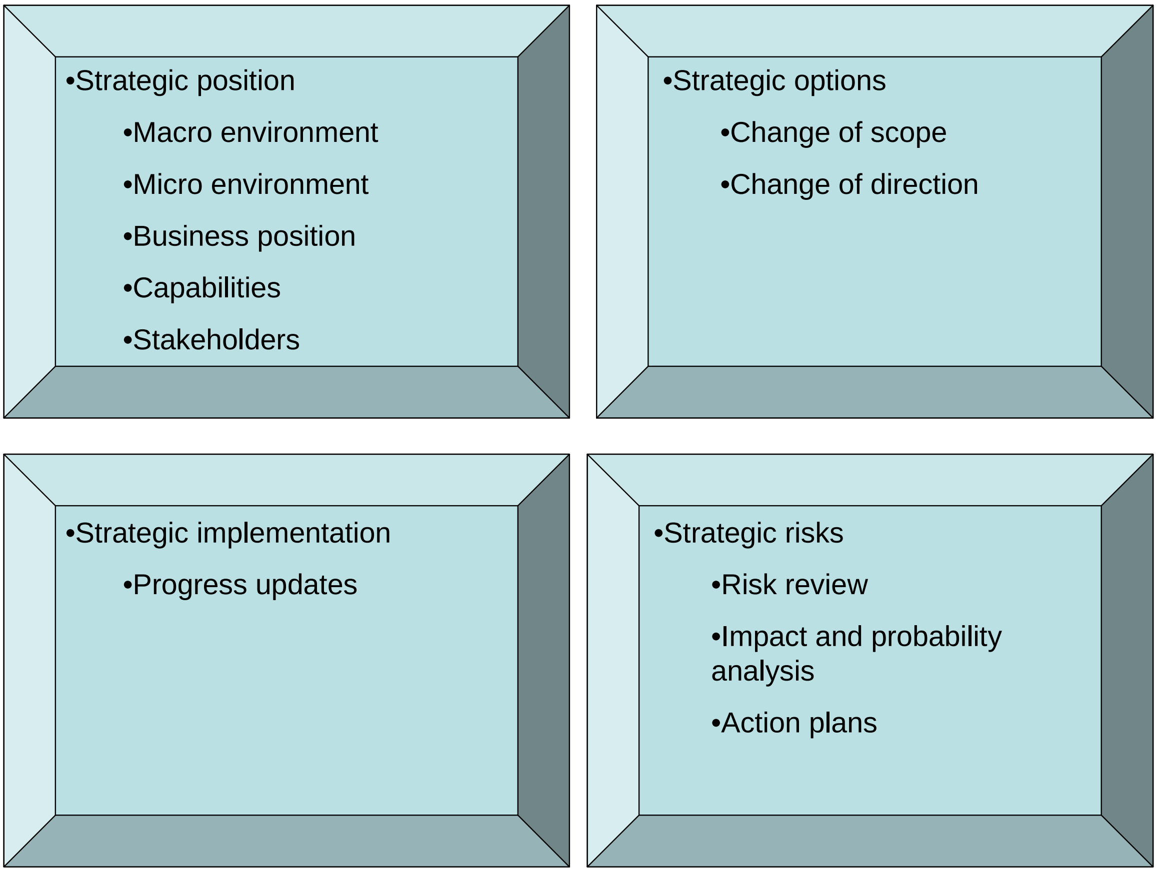

Figure 7 (Lees, 2004)

These elements are displayed in Figure 7 above and discussed in more detail, based on how Lees (2004) describes them in the section below.

a) The Strategic Position

This denotes the current strategy that the organisation is following, specifically in regard to the micro environment, the macro environment, threats from changes in any environment, the business position, capabilities of the organisation and the stakeholders. Lees (2004) suggests that the board should continually review the strategic position of the company.

In a January 2005 McKinsey survey of 1 016 corporate directors, it was found that more than half of the directors did not have a clear sense of the company's future prospects (Felton & Fritz, 2005). Felton & Fritz (2005) note that if the directors do want to be more involved in the strategic process of the company, they need to work with management in order to fully understand the current strategy of the organisation.

Jonk & Schaap (2004) suggest that the major industry trends that affect the business need to be identified in order to assess strategic opportunities and risk.

Ingley & Van der Walt (2001) refer to Davies (1999), who identifies strategic leadership as the role of the board. This supports the recommendation in the CIMA scorecard that the board should continually review the strategic position of the company. This is also in line with the suggestion by Felton & Fritz (2005) that the directors should have enough time to probe strategic issues, such as the ability to execute.

b) Strategic Options

Lees (2004) describes these as strategic bets that can potentially create or destroy shareholder value and recommends that the board is aware of both options that management are evaluating as well as those that are NOT being evaluated, together with the reasons for each. These strategic options need to be evaluated in terms of change of scope and change of direction.

Garratt (1996), quoted by Ingley & Van der Walt (2001), refers to strategic thinking as one of the roles of the board and proposes that strategic thinking focuses on the long-term effectiveness of the organisation, implying strong leadership and a cognitive involvement. This involvement will be required where boards need to evaluate strategic options of the organisation.

Ziemba & Westman (2004) suggest that the board can add value to strategies as well as fulfilling roles in active governance and controls. They go further to recommend that a board diagnostic and evaluation be done as a way of unleashing the board's potential in evaluating strategic options.

c) Strategic Implementation

In terms of strategic implementation, Lees (2004) believes that the board needs to be updated on the progress of the implementation of the strategy and that the critical success factors for the implementation need to be set out, indicating the need for an interactive board that Oliver (2000) identifies.

This is in line with the thinking of Ingley & Van der Walt (2001), that the board should provide strategic guidance by reviewing and guiding corporate strategy and monitoring the implementation thereof. Sussland (2004) also believes that there should be involvement from the board with the deployment of strategies and goes further to note that the fact that the board studies the deployment of the strategy could raise questions regarding the validity of the actual strategy.

Felton & Fritz (2005) concur and point out that strong board support to management ensures that success was achieved in driving the long term strategy. This position refers to a combination of the interactive and the proactive board as defined by Oliver (2000).

d) Strategic Risks

Here Lees (2004) explains that modern business environment necessitates a more performance-focused approach to risk management rather than one driven mainly by compliance requirements. Here the board needs to assess all enterprise risks by reviewing the risks in the strategy doing an impact and probability analysis, assessing risks that may be embedded in company plans, developing action plans for the key risks and monitor those against milestones and confirm that risk management is embedded in acquisitions and major projects.

Chong (2004) supports this view on risk management and adds that there is more to risk management than just monitoring the financial performance of the organisation and that it also means the control of human beings that are in charge of the organisation. Chong (2004) also warns against the complacent belief that the Basel II banking guidelines and the IAS accounting rules tackle the full spectrum of organisational risk. He points out that these guidelines only deal with operational risk and do not govern the strategic risks of the company.

Gerrard (2003) states that companies should have a risk management system in place that identifies and evaluates material regulatory risks and Belton (2004) notes that it is vital for directors to understand and manage risk well.

e) General comments regarding the scorecard

Lees (2004) suggests that the strategic scorecard be used to help company boards obtain a view of the company's strategic position and progress. She then goes further to highlight the fact that it is still the task of executive management to involve boards in strategy and that the strategic scorecard in itself cannot do that.

Garratt (2003) warns against the board becoming so involved in the strategic planning of the organisation that they get “bogged down in project planning and budget numbers” (Garratt, 2003, 88). The idea is to get the board into a frame of mind of constant strategic thinking (Garratt, 2003) in order to develop a sense of the changes in the environment that the organisation is facing.

However, it is specifically this strategic thinking process of the board that will end up providing the required input that the management of the company will require for the strategic planning phase. Garratt (2003) lists the following ten areas of strategy as part of the strategic thinking process:

- SWOT and PPESTT – Where SWOT looks at Strengths, Weaknesses, Opportunities and Threats that the company is faced with and PPESTT looks at analysing the Political, Physical, Economic, Social, Technological and Trade environments that the organisation is operating in.

- The Value Chain – Involves that the board works through all the operational activities as well as the strategic support activities in relation to the organisation’s known competitors.

- The Five Forces Model – Where the economic power of suppliers and customers, the threat of new entrants and new products or services and the churning of competitors all need to be investigated by the board.

- Environmental Variables – These can be evaluated effectively using strategic techniques such as scenario planning.
- Calculus – Involves analysis of scenarios and dilemmas that were identified.
- Strategic Implications – Follows on from the five forces investigation and the scenario planning analysis. Here the board will consider the strategic implications for the company going forward.
- Strategies to Achieve the Purpose – These link back to the evaluation of the strategic options that form part of the strategic scorecard.
- Strategic Allocation of Resources – The board decides which areas to focus scarce resources on in order to implement the strategy.
- Start the Planning Process – Only at this point are the results of the board's strategic thinking handed over to management, changing it into an operational process.
- Install the Feedback Processes to the Board – This process refers to the strategic implementation section of the strategic scorecard and ensures that the board is able to supervise the implementation of the chosen strategy.

It is clear from the above that strategic thinking, according to Garratt (1996), is concerned with long-term organisational effectiveness and incorporates reviewing and initiating strategic analysis, formulating strategy and setting corporate direction (Ingley & Van der Walt, 2001).

2.6 Summary of literature review

In summary the literature review depicts the importance for organisations to comply with corporate governance principles, regulations and guidance, hence the focus from the boards of directors.

The authors of various publications agree that the board definitely has an important role to play regarding the corporate strategy of an organisation and much debate ensues around the level of involvement that is required from the board members and, linked thereto, the role that the composition of the board of directors plays in ensuring that the company has an effective board. The structure and demographics of the board are key in determining the strategic direction that the board provides as well as the level of involvement from the board. The literature goes further to point out that there should be a balance between governance and entrepreneurship to ensure that the company is governed in an effective manner to ensure its future sustainability in an ever changing strategic and competitive landscape.

Nadler (2004) seeks to clarify these issues by providing guidelines for the level at which the board should be engaged in the strategy making process within organisations and Garratt (2003) lists the specific points that he believes form part of the strategic thinking process of the board of directors.

There is certainly a need for the board to focus on business value, as opposed to only ensuring compliance. Lees (2004) goes further to suggest that organisations should be using a balanced scorecard to assist the board in balancing the corporate governance and the performance management aspects of the organisation.

This extensive literature review presents interesting constructs regarding the role of the board and their involvement in the strategy making process and leads to the research propositions discussed below.

3 Research Propositions

The above literature review leads us to the following propositions to be tested:

3.1 Proposition One

Companies' boards of directors are so focused on internal controls related to corporate governance that they neglect the future business value of the company.

3.2 Proposition Two

The pre-requisites that Nadler (2004) suggests for engaging the board in strategy are not present in boards of South African companies. These pre-requisites are dealt with in paragraph 2.4 above and are:

- Balanced but diverse board composition;
- An engaged executive team;
- The CEO as process leader;
- An open and constructive board culture and
- Board accountability.

3.3 Proposition Three

The strategic scorecard, developed by CIMA, can be applied in the South African context to ensure that companies' boards are engaged in activities that provide value to the company, without management giving up its prerogative to manage and run the company.

4 Research Methodology

Leedy & Ormrod (2001) point out that characteristics such as the purpose of the research, the research process and the method of data collection mainly assist in determining the difference between qualitative and quantitative research. The nature of the research problem set out in section 1 of this report is conceptual and lends itself to the use of an interpretive method of qualitative research design. The reason for using the qualitative method is based on the characteristics identified by Leedy & Ormrod (2001), that the purpose of the research is to describe, explain, explore and interpret and the method of data collection makes use of small samples and is based on interviews.

An exploratory approach was required to effectively embark on the research and to facilitate the data gathering process. The challenge of access to appropriate interviewees meant that a smaller sample was available, lending itself to this specific research methodology, where the method of data collection will be informative, using a small sample.

The researcher specifically made use of the qualitative survey method of using in-depth interviews as data source. According to Leedy & Ormrod (2001), the intention of the researcher during qualitative research is to seek an understanding of a complex situation where the research is of an exploratory nature during this research process.

The interviews for data gathering will also be discussed in this section of the report as well as the process that was followed in order to analyse, interpret and present the data in the most effective manner.

This section will conclude with a discussion around the validity and the reliability of the specific research method.

4.1 The Role of the Researcher

4.1.1 Background and Biases

In line with the qualitative nature of the research, the researcher is actually the instrument of the research method (Leedy & Ormrod, 2001). We therefore need to take cognisance of the background of the researcher to identify the nature and extent of possible researcher bias.

The researcher is a project manager within a large global consulting company and has been responsible for managing implementation of a large enterprise resource planning system (Oracle Applications) in medium to large organisations. As a result the researcher has consulted in various industries in South Africa.

Previously the researcher practised as an attorney for a total of five years and the combination of her legal and consulting backgrounds has sparked the interest in corporate governance. This background may influence the interpretation of data as well as the manner in which the findings are presented in the proposed research. However, the legal background of the researcher will assist the researcher to be more factual, analytical and objective in the approach and will limit the influence and effect of emotion on the total research process.

4.1.2 Relationship with Interviewees

Although the researcher has previously met the proposed interviewees, no personal or hierarchical relationship exists between the researcher and the proposed interviewees. The researcher plans to conduct interviews with individuals that are part of large organisations in various industries in South Africa and the fact that one of the interviewees is the CEO of the organisation where the researcher is employed, should not have an impact on the research process or the overall results of the findings.

4.2 Data Collection

Generally researchers are able to use multiple forms of data to do qualitative research – depending on the open-mindedness and creativity of the researcher (Leedy & Ormrod, 2001). In this research, the researcher made use of semi-structured interviews and observations to gather data from the small, informative sample.

The reason for electing to use semi-structured interviews was to ensure that there was adequate flexibility during the interviews to yield useful information, but to limit getting so many different pieces of information from the various interviews that the researcher was unable to effectively compare the responses.

4.2.1 Research Population

The research population is the boards of directors of all publicly listed companies in South Africa, regardless of which securities exchange they are listed on, that need to comply with the regulations or follow the guidelines pertaining to corporate governance.

4.2.2 Research Sample and Sampling Methodology

This research sample was specifically selected to ensure that the research propositions can be interpreted in various settings in the South African environment.

The selection criteria for the sample were the varied nature of the industries that the companies operate in and convenience. Due to the corporate position that the interviewees are required to hold for this specific proposed research, access to a large sample of the population could be challenging and the researcher decided that a minimum of ten interviewees would be required to ensure increased validity.

The generalisability of the research will be challenging due to the small research sample, but the research may be transferable to other company boards. However, Cooper & Schindler (1998) do point out that the belief that a small sample is not representative is false.

Once a list of interviewees was determined, initial contact was made with the interviewees via telephone or e-mail, explaining the nature of the research. Some interviewees requested that they receive the interview questions prior to the interview in order to be prepared.

Merriam (2002) points out that the explanation of the sampling method and the data collection during the research process provides an audit trail enhancing the reliability of the specific study.

4.2.3 List of interviewees

The researcher identified a total of ten proposed interviewees. These individuals all hold top management and/or board positions in large organisations across various industries in South Africa and are listed hereunder.

Name	**Company**	**Designation**
Asher Bohbot	EOH	CEO
Thomas Beale	Vodacom	Chief Governance Officer
Adam Jones	NamITech	Managing Director
Hein Engelbrecht	Mustek	Financial Director
Vincent Joyner	Accor Hotel Group	CEO
Steven Cohen	Softline	CEO
Jurie Geldenhuys	Various	Non-Executive Director
Mathews Phosa	Various	Non-Executive Director
Johan Basson	Bytes Document Solutions	Financial Director
John Grainger	Various	Non-Executive Director

Figure 8

4.2.4 Data Type

The primary method of data collection was personal, in-depth interviews that were conducted in the interviewees' respective offices. Each interview took about one hour.

The researcher used a list of questions as framework for the interview in the form of an interview schedule. Most questions were rather open-ended in an attempt to elicit as much participation as possible from the interviewees and to ensure flexibility during the interviews. The researcher allowed the conversation to flow, but where required, the researcher prompted the interviewees to ensure that sufficient and relevant information was gathered during the interview process.

The researcher took notes during the interviews to ensure that the attitudes of the interviewees were noted and to also note any emphasis made by the interviewees. Interviews were not recorded and were transcribed shortly after the interview not to lose any important information.

4.3 Data Analysis and Interpretation

The transcribed interviews were analysed using conversation analysis and board procedures, the involvement of the board and their decision making were carefully noted to align with the information required for the research propositions.

The research propositions were used as the bases upon which the researcher decided to display the data.

The interpretive nature of the research strategy allows the researcher to interpret the data during analysis in some cases and even sometimes during the actual interview. The researcher attempted to find the essence of the data during the interpretation phase, in order to accurately reflect the viewpoints of the respective interviewees.

The findings presented during the interpretation of the data have been compared with the literature to ensure consistency throughout the report. In cases where the interviewees expressed themselves in a manner worth presenting in the research, quotations were used.

5 Analysis and Description of Results

This chapter describes the data collected and the analysis performed on the data. The chapter is organised to set out the findings in accordance with the propositions that form part of the research, as Garratt (2002) specifically notes that it is an art to not be overwhelmed by a sea of data and to only extract specific information related to the problem at hand.

Each proposition is dealt with separately and the data collected around such proposition is analysed in the context of the specific proposition as well as the literature pertaining thereto. Where appropriate and possible, the data is also presented in tabular form for ease of reference.

There was a marked difference between the data gathered from executive directors as opposed to non-executive directors. Due to the nature of the sample being one of convenience, the larger part of the sample consisted of executive directors, which may skew the findings and the analyses presented herein.

There was one company's board of directors that was particularly unique in its findings because of the fact that the board consisted of only executive directors, except for the chairman, resulting in interesting findings from the data gathering process.

5.1 Proposition One

The proposition that companies' boards of directors are so focused on internal controls related to corporate governance that they neglect the future business value of the company was investigated by reviewing the typical agenda items that form part of regular board meetings.

All the interviewees mentioned that the board meetings followed a set agenda and that specific items were only added as and when required. Strategy or the strategic direction of the company was not a specific agenda item for any of the board meetings. One of the interviewees added that the board did not do any long term planning, that the focus of the board meeting was purely on the financial results and that the longest strategic view ever taken was six months into the future. This is cause for concern, as it is not the intention of the recommendations contained in the King 2 report that the board of directors is merely there for control purposes.

Linking to the importance of the involvement of the board in the long term strategic planning of the company, Jonk & Schaap (2004) point out that most companies use long term strategic manoeuvres such as outsourcing and joint ventures and that the boards are unable to evaluate the risks associated with these initiatives when they are only looking at the company's performance reports.

An interviewee from one of the larger companies explained that they viewed the role of the board to direct and control and that they were at all times focused on maintaining a balance between those two functions. However, separate strategy making sessions were held involving mainly management and then the chosen strategy was only ratified at the scheduled board meetings. This approach seems to be the generally accepted approach throughout the companies evaluated.

Nadler (2004) points out that one of the benefits of involving the board – including the non-executive directors – in the strategy of the company, will ensure that the board will be more likely to support the management of the company during the difficult times, as it understands the background and the specific support that will be required.

The general response from all the interviewees was that the non-executive directors did not play a significant or important role in the directing of the organisations. In some instances the interviewees felt that the non-executive directors did not have sufficient knowledge or experience in the particular industry that the company operated in to add value to the decisions made during board meetings. This seems to be the reason for Pass (2004) referring to the Cadbury report and suggesting that the non-executive directors should be appropriately appointed in order to ensure that their views do carry weight during board meetings and decision making.

Three of the organisations that were reviewed displayed major entrepreneurial management styles, where the board is only in existence to comply with company laws. The executive directors are left to run, direct and control the company as they deem fit and the board meetings are in some instances run as management meetings and in other instances only convened for legal purposes. Taylor (2003) identifies this behaviour and warns that it is important for organisations to find the balance between entrepreneurship and corporate governance. He refers to the term “corporate entrepreneurship” (Taylor, 2003:4) as the balance between individual entrepreneurship and corporate governance and points out that corporate entrepreneurs should act responsibly by the use of internal and external benchmarking to ensure that they operate in a transparent manner.

It is important for these entrepreneurial organisations to still recognise the importance of electing non-executive directors to the board and to allow them to fulfil their roles effectively in order to help lead the organisation towards corporate entrepreneurship.

The one interviewee specifically pointed out that since the focus on corporate governance, there was much less risk taking and that the initiative and entrepreneurism in the company seemed to have dampened. He then also said: “Controls have taken the place of intelligence”. This company’s main board is in Paris, and the interviewee maintained that the main board was much more reluctant to approve new projects and has developed into a risk averse board. Zahra (1996) warns that the presence of managerial risk aversion is often suspected to be the cause for the decline of companies’ competitiveness.

In most cases it would therefore seem that the board plays a reactive role as Oliver (2000) identified and is merely an oversight board, as pointed out by Ziemba & Westman (2004).

5.2 Proposition Two

The second proposition that was researched is that the pre-requisites that Nadler (2004) suggests for engaging the board in strategy are not present in boards of South African companies. These pre-requisites are dealt with in paragraph 2.4 of this report and are:

- Balanced but diverse board composition;
- An engaged executive team;
- The CEO as process leader;
- An open and constructive board culture and
- Board accountability.

Each pre-requisite will be discussed separately below in accordance with the analysis of the data collected during the interviews.

5.2.1 Balanced but diverse board composition

Nadler (2004) identifies a balanced and diverse composition of the board of directors as a pre-requisite to ensure that the company is able to engage the board members in the strategy of the company. The balanced nature of the board is determined by the number of outside or non-executive directors as opposed the number of executive directors. In four of the companies that were researched, the board composition was heavily made up of executive directors and in one case it was only the chairman that was in fact an outside or a non-executive director. This could lead to a phenomenon known as common information bias, as identified by Atkinson & Salterio (2002). The result of the presence of common information bias within a company's board is that any possible unique information, held by one group member only, will get lost in the process. This is especially a risk in the organisation where the chairman is the sole outside director.

The interviewee from one of the companies pointed out that the board was comprised of mainly non-executive or outside directors and only two executive directors, the Managing Director and the Financial Director of the organisation. The trend in that instance was that the board meetings were only focused on the financial results and there was never a long term view taken regarding the future direction of the company. The longest planning that was discussed during board meetings was only a period of six months ahead. In this case the risk is not so much the fact that the board is not questioning management decisions as Atkinson & Salterio (2002) warn about, but the risk rather lies therein that management decisions are in actual fact influenced and determined solely by the board without sufficient input from management.

The composition of the boards that the interviewees served on can be summarised as set out in the figure below:

Interviewee	**Board Composition**	
	Executive Directors **%**	**Non-executive Directors** **%**
A	88.9	11.1
B	80	20
C	27.3	72.7
D	37.5	62.5
E	44.4	55.6
F	62.5	37.5
G	60	40
H	88.9	11.1
I	36.4	63.6
J	71.4	28.6

Figure 9

From the information in figure 9 above it is clear that the minority of the interviewees researched are members of boards of directors consisting of an equal number of outside and internal directors, resulting in the balance that Nadler (2004) encourages. However, in the organisations where there is a balance or where there are more non-executive directors than executives, it emerged from the interviews that the boards were content to leave the strategic decision making up to management and the executive directors in any event, merely providing a rubber stamp for such decisions at the subsequent board meetings and once again acting as an oversight board (Ziemba & Westman, 2004).

5.2.2 An engaged executive team

In this case, where Nadler (2004) suggests that an engaged executive team will ensure that the board is involved in the strategy of the organisation, Scherrer (2003) highlights the fact that the directors need to be more actively involved with management in order to be in a position to identify warning signals or risk.

In the results of this research, only one of the interviewees conceded that the non-executive directors play an important role in the risk management process of the organisation, even though their limited industry knowledge prevents them from providing useful strategic input.

In terms of the King 2 report (2002), directors are obliged to ensure compliance with and implementation of controls to limit risk to the company. In all the organisations researched, the board was very much informed about their risk management duties and the focus of the board was largely on the risk management of the company, neglecting their involvement in the future strategy and direction of the company in the process. The boards are mainly acting in a ratification capacity where it comes to the strategic initiatives of the organisation.

In the organisations where the board consistent of a large contingent of executive directors, or even only executive directors, the board was responsible for both determining and implementing the strategy of the organisation and they could definitely be classified as an engaged executive team. In those cases, however, the fact that the board composition is not balanced and does not include any non-executive directors, prevents the questioning of management decisions and the objective assessment of strategic initiatives.

Garratt (2003) stresses the fact that it is important for the chairman of the board to ensure that the executive directors do not merely bring pre-determined solutions to the board for approval, but that there is a need for the board to debate the strategic issues and spend more time on the strategic thinking in order for the company to have a clearly articulated strategy.

5.2.3 The CEO as a process leader

Nadler (2004) suggests here that the CEO needs to be open to new and diverse ideas from others and Scherrer (2003) points out that this leads to the requirement for outside or non-executive directors to be appointed to the board.

One of the interviewees, who is also Managing Director of the organisation, pointed out that there is a “healthy disrespect” amongst the board members, which he believes encourages the diverse opinions that may exist among the members of the board.

Another interviewee maintained that the chairman of the board totally dominated the board meetings and that no other input, opinions or ideas were entertained during board meetings. Any acquisitions or expansion was also done purely from an opportunistic point of view and was not in line with the strategic direction of the organisation at all and is solely based on whether the opportunity would be financially viable or not.

5.2.4 An open and constructive board culture

In order to ensure that there is an open and constructive board culture within an organisation links to the question discussed above whether the CEO of that organisation is in fact acting as a process leader. Most of the interviewees were of the opinion that there is indeed an open and constructive board culture, except for the organisation where the chairman of the board displays his dominance during the board meetings. In that case, the directors are forced to exchange and express opinions outside of formal board meetings.

Most of the interviewees pointed out that the open board culture was possible due to the fact that the directors had respect for each others' experience and knowledge and were open to the other board members' opinions and views. In the organisations where the board mainly consists of executive directors the board culture is extremely open and constructive and all opinions are entertained during board meetings. The reason for this could also be the fact that there is a presence of common information bias and that it is in fact easy to concur where the discussions are all around common viewpoints.

The combination of a balanced and diverse board composition, together with an open and constructive board culture, will ensure that the opinions expressed by directors during board meetings are sufficiently diverse and the culture sufficiently open in order to promote healthy discussion of pending decisions.

5.2.5 Board accountability

According to Nadler (2004), the board should be aware of their accountability and visibility. Accountability of board members has received major attention and publicity in the United States of America, where the Enron directors were held accountable in their personal capacities as well as in South Africa, where there is legal action pending against the directors of LeisureNet in their personal capacities.

The interviewees all stated that the directors viewed their accountability in a very serious light and that they were focused on ensuring that all divisions within the organisation functioned within the controls, policies and procedures of the company. Two of the interviewees specifically stated that the accountability of the directors was not a focus area due to the risk of legal accountability, but rather due to ingrained personal integrity and trust.

The one interviewee believed that the reason for this was that rules and regulations would not turn anyone into an honest person. He also pointed out that it was important in their organisation that there were not too many internal controls leading to unnecessary increased overheads and stifling the day to day operations of the company.

5.3 Proposition Three

The third proposition that was researched is that the strategic scorecard, developed by CIMA, can be applied in the South African context to ensure that companies' boards are engaged in activities that provide value to the company, without management giving up its prerogative to manage and run the company. Each aspect of the strategic scorecard will be dealt with separately to evaluate whether it is appropriate for companies in South Africa.

5.3.1 The Strategic Position

The inclusion of the strategic position that the company finds itself in on the strategic scorecard forces the board of directors to take cognisance of the current position that the company finds itself in. In the process of taking into account the macro environment and the micro environment that the company is a part of, they are able to identify the major industry trends that affect the business of the organisation, as suggested by Jonk & Schaap (2004). This assists the board to effectively assess any strategic opportunities and risk in the appropriate context and with sufficient background information.

All the interviewees conceded that strategy or the strategic position of the organisation does not feature as an agenda item at the board meetings and is mainly left up to management and the executive directors to determine and evaluate. The board only acts in a ratifying capacity, often with limited industry knowledge or no appropriate context. Including the review of the strategic position of the organisation on a scorecard for the board of directors, ensures that the strategic position of the organisation enjoys the attention that it deserves at the board level. As Jonk & Schaap (2004) point out, assessing all factors related to the strategic position of the company is an important element of risk management, which the directors view in a serious light due to the recommendations contained in the King 2 report (1999).

5.3.2 Strategic Options

In the analysis of the interviews that were conducted, it was clearly demonstrated that the board of directors of one of the organisations approached any change of scope or change of direction of the company's business purely from a strategic point of view, without carefully discussing and evaluating the strategic options that the organisation is faced with. These strategic options can potentially destroy shareholder value (Lees, 2004) and it is therefore paramount that the board is able to demonstrate that the options were carefully weighed up and evaluated before a specific option was chosen. Lees (2004) even recommends that the board should be aware of the options that management are not evaluating and that they should understand the reasons why certain options are not being evaluated.

In the event that the strategic options related to a change of scope or a change of direction by the organisation form part of a strategic scorecard that the board is measured on, they are able to ensure that they are managing the risk of the organisation effectively and acting in accordance with the best interests of all stakeholders in the organisation, including the shareholders.

5.3.3 Strategic implementation

The finding from all the interviews conducted was that it was left up to management, with some involvement from the executive directors, to ensure that the chosen strategy was implemented. Although it is not expected that the board take the responsibility for actively implementing the strategy throughout the organisation, it is important that they monitor the progress of the implementation process.

Lees (2004) suggests that the board should be updated on the progress of the implementation regularly and that this progress should be measured against agreed critical success factors to ensure that the implementation of the strategy is done effectively.

This should be seen by the board as part of their role of managing the risk of the organisation. Sussland (2004) points out that the involvement of the board or monitoring by the board during the implementation of the strategy may even alert the board to the appropriateness of the chosen strategy, enabling them to validate the strategy on an ongoing basis. As a result the board can be more pro-active in making changes to the direction or scope of the business rather than waiting for the chosen strategy to fail and having to determine changes after the fact.

5.3.4 Strategic Risks

The interviewees stated throughout that risk management was an important aspect of the board's responsibility and accountability. However, no evidence of any formal impact and probability analyses was found during the research. The board's role also did not stretch as far as developing action plans for key risks that may be embedded in company plans. One interview specifically pointed out that most of the expansion activities undertaken by the company were purely opportunistic and done without the appropriate analyses.

Where Lees (2004) recommends a performance-focused approach to risk management, the intention is not to stifle corporate entrepreneurship. The risk management aspect within a company is not restricted to monitoring financial outcomes (Chong, 2004) and some interviewees expressed the opinion that new ventures were undertaken solely based on the financial reward associated therewith. Zahra (1996) points out that part of corporate entrepreneurship involves risk, as it usually requires fundamental changes to the company culture, structure and managerial styles.

It is therefore absolutely appropriate to use the approach to risk management that includes risk review, impact and probability analyses and action plans, as suggested by Lees (2004) and that form part of the strategic scorecard.

5.3.5 General comments regarding the Strategic Scorecard

The elements that form part of the strategic scorecard developed by CIMA highlight the areas that the board of directors of an organisation should be taking cognisance of in order to ensure that they are involved in the appropriate areas of decision making and actively advising and assisting management in running the company.

The scorecard provides guidance to the board where the particular challenge that they face is to maintain effective oversight of the strategic position and progress of the organisation (Lees, 2004). All the interviews that were conducted showed that there was no formal process in place for the board to monitor its strategic involvement in the company. The scorecard will be able to address this gap in the companies to ensure that there is a structured, formal process and evaluation of the strategic involvement of the board of directors.

Although the elements of the scorecard were developed for the UK, all elements are appropriate and relevant in the South African context as well and will be able to provide guidance to South African boards of directors to balance compliance with value.

6 Conclusion

6.1 Propositions

Most propositions that were identified in the literature that formed the basis of this research were supported by the research data and some were only partially supported. Each of the propositions together with a summary of the findings related to the proposition are presented in this chapter.

Proposition 1

Companies' boards of directors are so focused on internal controls related to corporate governance that they neglect the future business value of the company.

This proposition is supported, as all interviewees indicated that only the executive directors and management of the company were involved in ensuring future business value of the company and that the board was either inactive or only reactive.

Proposition 2

The pre-requisites that Nadler (2004) suggests for engaging the board in strategy are not present in boards of South African companies.

This proposition is only partially supported by the research data. The companies that the interviewees are involved with do not focus on creating a balanced and diverse board of directors and engaging the directors in the strategy of the organisation. In most cases the CEO is indeed the process leader in the organisation and the board members view accountability of directors in a very serious light. It emerged that most organisations also attempt to create an open and constructive board culture to ensure that all directors contribute to the discussions.

Proposition 3

The strategic scorecard, developed by CIMA, can be applied in the South African context to ensure that companies' boards are engaged in activities that provide value to the company, without management giving up its prerogative to manage and run the company.

It was clear from the interviews that the companies' boards were very focused on adhering to the recommendations in the King report and preventing any conduct that would indicate a lack of governance in the organisation. However, it was also evident that they were not sure how to become involved in the strategic planning of the company without treading on toes and interfering in the management of the organisation. The strategic scorecard can be applied in the South African context and will assist the board to ensure the right level of involvement in the future value of the company without detracting from management's prerogative to manage and run the company.

6.2 Areas of future research

The following have been identified as potential areas for future research:

- What is the role and involvement expected of non-executive directors? How do they contribute effectively to the corporate governance structures within organisations?

- Should director induction and training courses be incorporated as part of the corporate governance recommendations in South Africa or even legislated as part of the new Companies Act?
- Which board structure is in actual fact appropriate for the South African context to ensure effective corporate governance?

6.3 Conclusion

"Boards are in danger of bowing even more deeply to the altar of compliance while forgetting the true purpose of an organisation's existence". (Birchfield, 2004:3)

The focus on corporate governance, the imperative of compliance and the threat of personal accountability to directors has forced boards of directors to spend their energy ensuring effective governance in the organisation. This has caused them to neglect their task of directing and steering the organisation in accordance with a planned and agreed strategy.

This research highlighted areas of concern and created awareness for the fact that boards of directors tend to leave the strategic planning and implementation process up to management and the executives.

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8 Appendix A: Interview Schedule

8.1 Interview Protocol:

Engaging boards of directors in activities that will provide value to the company without management giving up its prerogative to run the company.

8.1.1 Details of the Respondent:

Respondent Name:

Title:

Organisation:

Contact Telephone Number:

Email Address:

Date:

Time:

Duration of Interview:

8.1.2 Opening Statement to Respondent:

Thank you for agreeing to contribute to this research. The interview should not last longer than an hour. If you wish your contributions will be anonymous and neither your name nor company will be linked to any statements or comments you make.

As I explained briefly in our telephone conversation, I am doing research into the role of company directors in the strategic processes of the company. I would also like to explore what processes have been put in place to ensure that boards do not focus only on compliance when it comes to corporate governance, but that they are actually providing business value to the company.

8.1.3 Key Research Propositions:

Research Proposition 1

1. Firstly I want to confirm that my information regarding the composition of your company's board of directors is correct. I have the following. The researcher will then list the names, qualifications and backgrounds of all board members.

The aim of this question is to validate information that the researcher has regarding the backgrounds of the members of the various boards.

2. How often does the board meet?

3. What are the typical agenda items for these meetings?

The aim here is to gain an understanding of the level of matters that are generally discussed at the particular company's board meetings.

4. What do you believe to be the role of the board of directors in this organisation?

The researcher is able to note and observe the view of the interviewee in this regard.

Research Proposition 2:

5. Does the board spend time with the management team of the company at regular intervals?

6. If yes, how often and what areas are discussed?

7. Would you say that there is an open culture at the board meetings and that diverse opinions are welcomed and entertained?

8. If yes, how is this achieved?

9. If no, what is the reason for this?

10. Regarding accountability of board members, how does the board view this duty?

These questions are asked to evaluate whether pre-requisites developed by Nadler (2004) are present.

Research Proposition 3:

11. Does the board get involved in the strategy making process of the company?

12. If yes, how and at which level?

13. If no, what are the reasons for this?

The aim of this question is to determine the level of the board's involvement and engagement in the strategy making process of the company.

14. Which elements of the strategy making process are considered by the board?

15. At which level is this done?

16. Would you say that the board plays a role of monitoring, or is their role more active?

17. Is there anything else you would like to add?

8.1.4 Closing Statement to Respondent:

Thank you very much for your time and for contributing to the research. The information gathered today has been very valuable.

As soon as I have transcribed and analysed today's interview I shall send you a copy of the results for your comments and possible suggestions for changes to ensure that I validate the content.

Once the research is completed I shall send you a copy. Once again thank you and goodbye.