

**A Look into the Role of a Board of Director in this 21st
Century (*Gathered Articles*): A North America, Asia,
Africa, Oceania & Europe Perspective**

RUDOLPH.PATRICK.T.MUTESWA

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Rudolph. Patrick. T. Muteswa

BBA, BCom Honors & MCom (UKZN South Africa)

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spoken by someone, the author would like to kindly inform you that the verbatim or direct word-for-word quote will only end after proper referencing of open and closed brackets has been done at the end of the verbatim sentence clearly acknowledging the name and year of the source document that has been used by the author as shown (Rudolph, 2019, www.rptmuteswa.ca.us). Furthermore, as the author of this textbook I have clearly highlighted the term ‘*Gathered Articles*’ on the book title meaning that the strategy I am using to write my book is using direct quotes I have gathered from various publications written by various authors and presenting them in a logical manner that creates a Book Chapter despite the fact that I will often at times present my own interpreted words in certain parts of the book. I was granted permission by the publishers of the information sources I obtained the information to use during my book writing process. In addition in certain instances there can be a full website link where the article or publication used in writing this textbook can be directly downloaded or viewed by the readers of this textbook for instance: during in-text referencing, the footnotes and or the bibliography section of the chapter as this enables the author of this textbook to clearly show the readers who the original owners of the published work are and also to fully acknowledge them. In addition readers please note that all the information sources used in this book are owned by the publishers/owners of the various websites, books, newspapers, magazines and journals used by the book author. Therefore readers of this textbook if you want to use any of the information from any of these referenced sources please may you directly contact the original owner(s)/publisher(s) of the information source for permission to use their information for whatever purpose you want to use it for. Readers of this textbook please be advised that all the organizations (*including the names of their executive board of directors, executive management, employees or brands*) that are cited as information sources or examples in this book are neither affiliated, sponsored nor authorized with this book and its author/publisher. **This textbook is a ‘free-of-charge’ book and it shall not be sold to any individual, entity or institution that wants to use or read it for educational, training, coaching and or library purposes.**

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Author & Book Editor

Rudolph. Patrick. Tawanda. Muteswa is a global Human Resources Management, Entrepreneurship and Business Management Specialist. He received his Master of Commerce in Human Resources Management (MCom), Bachelor of Commerce Honors (BCom Hons) in Human Resources Management and Bachelor of Business Administration in Management (BBA) from the University of KwaZulu-Natal in Pietermaritzburg, South Africa. Rudolph P.T. Muteswa is passionate and committed towards the board of director profession and career-field. He is strongly inspired by the various iconic ‘board of directors’ and executive directors of leading global organizations based in Africa, North America, Europe, Oceania and Asia and some of these organizations he used them as examples in all his textbooks. Rudolph. P. T. Muteswa in his personal life enjoys doing the following: writing inspirational poetry, athletics, vegetable gardening, listening to music, travelling & learning more about the different cultures found in different parts of the world.

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PREFACE TO THE FIRST EDITION

Boards of directors today are now playing a critical strategic role in the management, growth and strategic planning of an organization. Good corporate governance is now the new buzz in the world of business as all board of directors' business decisions and practices are now required to be ethically sound, transparent, innovative, convenient and legal. Each and every organization must develop a set of good corporate governance principles and or fundamentals its board of directors must follow to successfully implement high corporate governance standards while simultaneously achieving the goals of the organization and the best interests of shareholders. Good business leadership is one of the key ingredients of attaining success at the workplace by board of directors and the management of the organization. The purpose of this book is to educate readers about the critical role that is played by board of directors in ensuring that an organization operates effectively while upholding good corporate governance principles on a regular basis. Today many countries across the world have different laws that govern corporate boards and their functions while on the other hand these different laws tend to share numerous commonalities. Therefore, the duties of a board of director in the continent of North America tend to be much similar to those practiced in another continent such as Europe thus making the role of a board of director a global field. Another purpose of this book was to introduce readers to the different functions of a board, job titles found in a boardroom, the election of corporate board members, the different types of conflict found in a board or organization by using examples of leading global profit-making and non-profit making organizations. The other aim of this book was to highlight the role played by the different types of conflict amongst board members and employees in causing failure in an organization and how to avoid conflict in an organization so that all the organizations located in different parts of the world continue to operate successfully in order to continue to create jobs for their communities. Lastly, another aim of this book was to contribute towards the development of business professionals in the board of director careerfield by publishing a free *eBook* and a *print hard copy* to empower all chairpersons, company secretaries, board of directors, CEOs, COOs, CFOs, managers, head of departments (*namely: human resources, marketing, operations & supply chain, finance, information technology, research & development, legal affairs and so on*), business executives, and many other business related specialists. This book specifically targeted people in the continent of Africa, North America, Europe, Oceania and Asia in order to provide them with

basic knowledge about the critical role played by board of directors in an organization today since a book is '*a source of wisdom*' that can positively influence others to become ethical and better people in society. Furthermore, I wrote this book to help promote a culture of book writing amongst people of this 21st century in order to enhance knowledge sharing or academic wisdom through book publishing in both developed and developing countries in order to help promote ethical global economic development. I noticed that in this life we live today humanity can only progress through consistent learning or knowledge sharing and the desire for consistent learning can only be strengthened through book writing and rigorously promoting a culture of book writing amongst all people located across the world in various career-fields.

Acknowledgement:

I would like to thank my 6 (*four brothers & two sisters*) siblings for tirelessly supporting me towards my education and personal life goals. I would also like to take this opportunity to greatly thank my late parents, aunties and uncles for the great role they played in my childhood. Furthermore, I shall forever be grateful to the great men and women in the continent of Africa, North America, Europe, Oceania and Asia who contributed in the writing of this book in particular all the named leading 'iconic' entrepreneurs, business leaders, organizations & the various information sources cited in this book.

Chapter 1: Introduction to board management

After reading this chapter you should be able to:

- Describe the definition of a ‘board of director’.
- Describe what is a director and the importance of directors to an organization.
- Highlight the different types of directors and the characteristics of an effective director.
- Explain the role of a board in strategic planning.

1.1 Introduction

Nowadays boards are now the leading key players in determining the success or failure of an organization. A board that lacks oversight, diversity, innovativeness and the ability to embrace change is more likely to fail at everything it does pertaining to the organization's day-to-day activities. The functions of a board are broad and they can only be achieved by board of directors who are focused and highly engaged. “The purpose and responsibilities of the board as well as the restrictions and limitations placed on it will vary between organisations, depending on the specifications of the organisation’s constitution. In general, the purpose of a board is to provide the organisation with strategic direction and purpose. An effective board is proactive and drives the work of the organisation, rather than responding to it. Boards are typically required to have a minimum of 3 members, also known as directors.”¹ (Betterboards Australasia, 2018, <https://betterboards.net/>). ²“*Board decision making?* All board decisions are made collectively and all board members share equal responsibility for board resolutions even if they may have expressed reservations at the time. This collective responsibility, accountability and wisdom (with its implicit checks and balances) are an important feature of good governance and decision

¹ Better Boards Australasia (2018) *What is a Board*. Available from: <https://betterboards.net/non-profit-fact-sheets/what-is-a-board/>

² Australian Institute of Company Directors, 2016, *Governance relations: Role of the board*, Director Tools, Sydney, <http://aicd.companydirectors.com.au/resources/director-tools/practical-tools-for-directors>, (accessed 4 Dec 2018).

making of Australian boards” (Australian Institute of Company Directors, 2016:4). The meaning of the term board of director will be covered in the next section.

1.2 Definition of the term ‘board of director’

There are many definitions that have been developed by academics, business management gurus and other experts over the past decades. According to Betterboards Australasia (2018) “*Board*” is one of several names used to signify the group of people assigned the responsibility to govern an organisation, company or other similar entity. A board is a legal requirement of a number of different forms of for-profit and non-profit organizations (Betterboards Australasia, 2018, <https://betterboards.net/>). Furthermore, according to the Institute of Directors of New Zealand (2018) a board is:

- a group who meet regularly to look at the performance and strategic progress of the company
- at least one independent director and other owner-operator directors (executive directors)
- a group who can separate themselves from the day-to-day operations and take a birds-eye view of the business
- a group who can debate the difficult issues and come out with a clear decision for the future of the company
- ultimately, a group who guides, and is committed to, the company³(Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/What-is-a-board>). The following section will cover advantages enjoyed by an organization as a result of having board of directors.

1.3 Importance/Advantages of the ‘board of directors’ to an organization

⁴“As your company grows, it will have an increasing need for experienced stewardship and strategic direction. Eventually, your company will get to a point where it will benefit from

³ Institute of Directors in New Zealand (2018) *What is a Board?* Available from:

<https://www.iod.org.nz/FirstBoards/What-is-a-board>

‘outside’ or ‘independent’ directors whose experience will help you work “on the business”. These external directors bring valuable experience to guide your company through different growth stages” (Australian Institute of Company Directors, 2018, <https://aicd.companydirectors.com.au/>).⁵ According to the Institute of Directors in New Zealand (2018) *Benefits of having a board*. Benefits include:

- executive directors (those who work in the business) are often in a better position to evaluate the performance of the organisation because of their vast experience and inside knowledge
- non-executive and independent directors are more likely to be objective, and look at the company without business-owner emotions
- being able to successfully navigate the shoals of company law, whilst keeping an eye on the horizon – big picture thinking – is part of an experienced director's DNA! For busy SME owners, it's easy to lose sight of anything other than the demands of the day
- setting up a board or appointing non-executive directors will ensure the company performs and grows, with no curved legal balls tossed your way.

Both advisory boards and boards of directors should have a similar structure – a chairman to facilitate, and formal procedures for conducting meetings (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/What-is-a-board>).

- “Better business performance: Independent directors can bring additional skills that your business may be lacking. They can also contribute their experience, especially if they have been through the growth stage of a company, like yours. Independent directors offer you an invaluable source of expert advice and act as a ‘sounding board’ outside of your friend, colleague and

⁴ Australian Institute of Company Directors, 2018, *The Benefits of a board*, Resources, Sydney, <https://aicd.companydirectors.com.au/resources/all-sectors/the-benefits-of-a-board>, (accessed 4 Dec 2018).

⁵ Institute of Directors in New Zealand (2018) *What is a Board?* Available from: <https://www.iod.org.nz/FirstBoards/What-is-a-board>

family networks. They also introduce their networks that you and your company can draw on”⁶ (Australian Institute of Company Directors, 2018, <https://aicd.companydirectors.com.au/>).

- “Improved access to capital: Outside expertise can improve your company’s positioning and credibility in the market. Establishing an independent board demonstrates that you are committed to good governance and compliance. If you are trying to raise funds, investors will have a greater degree of comfort if they can see real independence demonstrated in your board and an audit committee, chaired by at least one experienced director with financial expertise”⁷ (Australian Institute of Company Directors, 2018, <https://aicd.companydirectors.com.au/>).

- “Management accountability: By distinguishing between management and oversight you take the next step in forming a business with intrinsic value. This enables greater attention to be paid to both governing and managing respectively. Managers become accountable to the owners, who are represented by the board” (Australian Institute of Company Directors, 2018, <https://aicd.companydirectors.com.au/>). The meaning of the term director will be clearly discussed in the following section.

1.4 What is a director?

According to the Institute of Directors in the United Kingdom (2017, www.iod.com/) the director is the most senior full-time executive of the company, except when there is an executive chairman. The managing director is responsible for the performance of the company, as dictated by the board’s overall strategy. The main purpose of the role is to direct and control the company’s operations and to give strategic guidance and direction to the board to ensure that the company achieves its mission and objectives. Both executive and non-executive directors are classified as office holders/officers of the company. Non-executive directors will usually have a letter of appointment, unlike executive directors who will have a contract of employment, however as far as HMRC are concerned, they are both subject to taxation under PAYE and to NI

⁶ Australian Institute of Company Directors, 2018, *The Benefits of a board*, Resources, Sydney, <https://aicd.companydirectors.com.au/resources/all-sectors/the-benefits-of-a-board>, (accessed 4 Dec 2018).

⁷ Australian Institute of Company Directors, 2018, *The Benefits of a board*, Resources, Sydney, <https://aicd.companydirectors.com.au/resources/all-sectors/the-benefits-of-a-board>, (accessed 4 Dec 2018).

contributions, much as employees⁸ (Institute of Directors in the United Kingdom, 2017, www.iod.com/). In general a *director* is any individual who is appointed to become a director in a company⁹ (United Kingdom Government Companies Act, 2006 cited in Richard Winfield, 2015 cited in The Directors Academy, 2019). In the next section the different types of directors will be covered.

1.5 Types of Directors

There are several types of directors that are found in organizations nowadays. Effective organizations often adopt a mixture of different types of directors in order to grow and increase shareholder value. The different types of directors that can be found in an organization are depicted in Figure 1.1 below.

⁸ Institute of Directors (2017) *What is a Director?* Available from: <https://www.iod.com/news/news/articles/What-is-a-director>

⁹ Richard Winfield (2015) *The New Directors Handbook*. Brefi Press.

Figure 1.1 Nine types of directors



Source: Modified: (Wilkinson, 2013, <https://strategiccfo.com/>; Institute of Directors in New Zealand, 2018; Institute of Directors, 2017, www.iod.com; Australian Institute of Company Directors, 2016).

As depicted by the Figure 1.1 the nine different types of directors include the following:

1.5.1 Inside director

“There are two types of directors on a [board](#): inside directors and outside directors. Inside directors are members of the [board](#) and executives at the [company](#), such as the [chief executive officer \(CEO\)](#). They have a dual role, serving as members of the governing body and working as managers at the [company](#)”¹⁰ (Wilkinson, 2013, <https://strategiccfo.com/>).

¹⁰ Wilkinson, J. (2013) *Board of Directors*. Available from: <https://strategiccfo.com/board-of-directors/>

1.5.2 Outside director

“In comparison, outside directors are not executives at the [company](#). They are independent individuals selected for their experience and expertise in the relevant industry or sector. Furthermore, outside directors serve only one role – they are not [company](#) managers – and are thus considered the more objective members of the [board](#). The chairperson can be an inside director or an outside director” (Wilkinson, 2013, <https://strategiccfo.com/>).

1.5.3 Executive directors

“Executive directors have a dual role as employees of the company and as directors. As directors they:

- have responsibilities, but must retain a degree of independence from their executive role
- should be appointed as individuals, and not because of any position they hold within the company
- must always be alert to the potential for conflicts between their management interests and their duties as a director.

An executive director brings an insider’s perspective to the table which can be very valuable when discussing the operations of a company”¹¹ (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors>).

1.5.4 Non-executive directors

“These directors bring an outside perspective to the table and often a wealth of knowledge and experience. A non-executive director may be representing a major shareholder but an independent director will generally have no other links with the company other than sitting on the board. Non-executive directors' principal role is to provide independent judgement. This includes:

- outside experience and objectivity on all issues which come before the board

¹¹ Institute of Directors in New Zealand (2018) *Types of Directors*. Available from: <https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors>

- understanding detailed knowledge of the company's business activities and on-going performance, so they can make informed decisions
- recognising the division between the board and management.

The boundary often gets blurred in SMEs. For example, a non-executive director may be appointed to fill a gap in knowledge and expertise, and end up assisting management in that area”¹² (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors>).

1.5.5 Independent directors

“To gain true separation between management and governance it makes sense to include independent board members. Some owners can feel threatened by this independence, but in the end their outside thinking can enable the business to grow and develop valuable long-term strategy” (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors>).

1.5.6 *De facto* directors

In general there is a difference between a *de facto* and a *de jure* director. “A *de facto* director (meaning a director in fact or in reality) is someone who has not been properly appointed and notified to Companies House as a director but who nevertheless acts as a director and holds themselves out to third parties as a director. Sometimes (but not always) they will have the word ‘director’ as part of a job title. The *de facto* director will usually carry out all the duties of a director and can make the decisions of a director, sign company documents and be treated as a director by *de jure* directors. It is the role assumed by the individual, rather than the title used that determines whether an individual is a director or not. The *de facto* director is also subject to the same [legal duties, responsibilities and potential liabilities](#) as *de jure* directors and will be treated as such by the courts in the case of a dispute” (Institute of Directors, 2017, www.iod.com).

¹² Institute of Directors in New Zealand (2018) *Types of Directors*. Available from: <https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors>

1.5.7 *De jure* directors

¹³According to the Institute of Directors (2017) a *de jure* director (meaning a director from law) is a director who is properly appointed to the board and registered with Companies House. *De jure* directors (also informally known as ‘Companies House directors’ or ‘registered directors’) will be either executive (employed directors responsible for the day to day running of the company) or non-executive (non-executive directors are not employees of the company, they provide independent guidance to the executive directors). Whilst executive directors have the protection of employment law in the same way as any other employee, there is no legal distinction between executive and non-executive directors in terms of their directorships. Consequentially, executive and non-executive directors have the same legal duties, responsibilities and potential liabilities (Institute of Directors, 2017, www.iod.com).

1.5.8 Shadow directors

The term shadow director may be defined in a slightly different way in different countries located in different parts of the world. According to the Institute of Directors (2017) a *shadow director* is ‘a person in accordance with whose directions or instructions the directors of the company are accustomed to act’ (Section 251 The Companies Act, 2006). Note the reference to ‘person’ as opposed to ‘individual’ meaning that a company can also be seen as a shadow director. A shadow director cannot carry out these acts themselves and probably acts behind the scenes as there is a reason that they cannot be appointed formally. A body corporate will not usually be regarded as a shadow director of its subsidiaries but a ‘dominant individual’ at the parent company could be. Advice given in a professional capacity (for example by lawyers or accountants) is not sufficient to make a person a shadow director but banks looking to protect loans made to a company or a ‘company doctor’ working on a corporate recovery plan could potentially be shadow directors¹⁴ (Institute of Directors, 2017, www.iod.com).

¹³ Institute of Directors (IoD) in the United Kingdom (2017) *De facto Directors and their Liabilities*. Available from: <https://www.iod.com/services/information-and-advice/resources-and-factsheets/details/De-facto-directors-and-their-liabilities>

¹⁴ Institute of Directors (IoD) in the United Kingdom (2017) *De facto Directors and their Liabilities*. Available from: <https://www.iod.com/services/information-and-advice/resources-and-factsheets/details/De-facto-directors-and-their-liabilities>

1.5.9 Nominee directors

A *nominee director* refers to an individual director who is selected by the co-owner or a shareholder of an organization to become part of the board and they generally have unquestionable loyalty and trust to the co-owner or shareholder who made their appointment decision while simultaneously they must consistently uphold the interests of the organization. In general it is the fiduciary duty of a nominee director to put the best interests of the organization first and after doing so they may act in the best interests of their nominator as this helps to avoid conflict of interest¹⁵ (Australian Institute of Company Directors, 2016, <https://aicd.companydirectors.com.au/>). The following section will cover the characteristics of an effective director.

1.6 Characteristics of an effective director

¹⁶According to the Institute of Directors in the United Kingdom (2002) cited in Institute of Directors in the United Kingdom (2017, www.iod.com) *the six key attributes of an effective director*. At the Institute of Directors, we believe that excellence and professionalism in the boardroom are essential for business. ¹⁷The following are based upon and adapted from the key attributes developed by the IoD in the publication ‘Standards for the Board’:

1.6.1 Strategic perception

- *Change-orientation*: Alert and responsive to the need for change. Encourages new initiatives and the implementation of new policies, structures and practices.
- *Creativity*: Generates and recognises imaginative solutions and innovations.

¹⁵ Australian Institute of Company Directors, 2016, *Board Composition: Types of directors*, Resources, Sydney, https://aicd.companydirectors.com.au/-/media/cd2/resources/director-resources/director-tools/pdf/05446-1-10-mem-director-t-bc-types-of-directors_a4_web.ashx (accessed 28 Sept 2019).

¹⁶ Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors)*. Paperback – 19 April.

¹⁷ Institute of Directors (2017) *What is a Director?* Available from: <https://www.iod.com/news/news/articles/What-is-a-director>

- *Foresight*: Is able to imagine possible future states and characteristics of the company in a future environment.
- *Organisational awareness*: Is aware of the company's strengths and weaknesses and of the likely impact of the board's decisions upon them.
- *Perspective*: Rises above the immediate problem or situation and sees the wider issues and implications. Is able to relate disparate facts and see all relevant relationships.
- *Strategic awareness*: Is aware of the various factors which determine the company's opportunities and threats (for example, shareholder, stakeholder, market, technology, environmental and regulatory factors)¹⁸.

1.6.2 Decision making

- *Critical faculty*: Probes the facts, challenges assumptions, identifies the (dis)advantages of proposals, provides counter arguments, ensures discussions are penetrating.
- *Decisiveness*: Shows a readiness to take decisions and take action. Is able to make up his/her mind.
- *Judgment*: Makes sensible decisions or recommendations by weighing evidence, considers reasonable assumptions, the ethical dimension, and factual information.

1.7.3 Analysis and the use of information

- *Consciousness of detail*: Insists that sufficiently detailed and reliable information is taken account of, and reported as necessary.
- *Eclecticism*: Systematically seeks all possible relevant information from a variety of sources.
- *Numeracy*: Assimilates numerical and statistical information accurately, understands its derivation and makes sensible, sound interpretations.
- *Problem recognition*: Identifies problems and identifies possible or actual causes¹⁹.

1.6.4 Communication,

¹⁸ Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors)*. Paperback – 19 April.

¹⁹ Institute of Directors (2017) *What is a Director?* Available from: <https://www.iod.com/news/news/articles/What-is-a-director>

- *Listening skills*: Listens dispassionately, intently and carefully so that key points are recalled and taken into account, questioning when necessary to ensure understanding.
- *Openness*: Is frank and open when communicating. Willing to admit errors and shortcomings.
- *Verbal fluency*: Speaks clearly, audibly and has good diction. Concise, avoids jargon and tailors content to the audience's needs²⁰.
- *Presentation skills*: Conveys ideas, images and words in a way that shows empathy with the audience.
- *Written communication skills*: Written matter is readily intelligible; ideas, information and opinions are conveyed accurately, clearly and concisely.
- *Responsiveness*: Is able to invite and accept feedback.

1.6.5 Interaction with others

- *Confidence*: Is aware of own strengths and weaknesses. Is assured when dealing with others. Able to take charge of a situation when appropriate.
- *Coordination skills*: Adopts appropriate interpersonal styles and methods in guiding the board towards task accomplishment. Fosters cooperation and effective teamwork.
- *Flexibility*: Adopts a flexible (but not compliant) style when interacting with others. Takes their views into account and changes position when appropriate.
- *Presence*: Makes a strong positive impression on first meeting. Has authority and credibility, establishes rapport quickly.
- *Integrity*: Is truthful and trustworthy and can be relied upon to keep their word. Does not have double standards and does not compromise on ethical and legal matters.
- *Learning ability*: Seeks and acquires new knowledge and skills from multiple sources, including board experience.
- *Motivation*: Inspires others to achieve goals by ensuring a clear understanding of what needs to be achieved and by showing commitment, enthusiasm, encouragement and support.
- *Persuasiveness*: Persuades others to give their agreement and commitment; in face of conflict, uses personal influence to achieve consensus and/or agreement.

²⁰ Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors)*. Paperback – 19 April.

- *Sensitivity*: Shows an understanding of the feelings and needs of others, and a willingness to provide personal support or to take actions as appropriate²¹.

1.6.6 Achievement of results

- *Business acumen*: Has the ability to identify opportunities to increase the company's business advantage.
- *Delegation skills*: Distinguishes between what should be done by others or by themselves. Allocates decision making or other tasks to appropriate colleagues and subordinates.
- *Exemplary*: Sets challenging but achievable goals and standards of performance for self and others.
- *Drive*: Shows energy, vitality and commitment.
- *Resilience*: Maintains composure and effectiveness in the face of adversity, setbacks, opposition or unfairness.
- *Risk acceptance*: Is prepared to take action that involves carefully calculated risk in order to achieve a desired benefit or advantage.
- *Tenacity*: Stays with a position or plan of action until the desired objectives are achieved or require adaptation²² (Institute of Directors, 2002 cited in Institute of Directors in the United Kingdom, 2017, www.iod.com). All the relevant information about a board committee will be discussed in-depth in the following section.

1.7 Board committees

According to the Australian Institute of Company Directors (2016:4) *what are board committees?* Boards are responsible for monitoring and overseeing many aspects of an organisation. To help cope with the scope of work and the technical complexities of some of these aspects, boards create committees of some of their members to review issues and make recommendations to a board for collective decision making. In large public companies these

²¹ Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors)*. Paperback – 19 April.

²² Institute of Directors (2017) *What is a Director?* Available from: <https://www.iod.com/news/news/articles/What-is-a-director>

committees generally include the audit committee, the risk committee, the remuneration committee and the nominations committee. Some boards also have committees that focus on governance in the areas of the environment, health and safety and community and stakeholder relationships²³ (Australian Institute of Company Directors, 2016:4). Information about the role played by the board of directors in the strategic planning process of the organization will be covered in the following section.

1.8 Interrelation of boards and strategic planning

“The board’s role in strategic planning. Developing and setting a clear strategy for the organisation and then implementing it are vital to the success of an organisation. Without clarity of strategic purpose and certainty about what the organisation does and doesn’t do, the organisation may have trouble achieving its objectives. An important part of developing and implementing strategy is to clearly delineate between the roles of the board and management. The level of board contribution to strategic thinking and planning may vary according to the organisation, its current situation, its size, its people and any other number of factors. Large businesses tend to have a strong and highly skilled executive team who can help in formulating the essence of a sound strategic direction for consideration and approval by the board. In this case, the board’s role may centre more on questioning, challenging and clarifying. In smaller organisations the board itself may play a more instrumental role in support of management in the development of strategy prior to its submissions to the board for approval. An organisation in crisis might also require greater board involvement than usual. Generally management has the responsibility to implement the strategy so it is important that the key executive management personnel support it. To formulate strategy, offsite sessions are often recommended by business commentators and advisers to minimise distraction and to allow a different type of thinking from day to day or regular work to occur. Annual sessions are common in strategy development and review, although more frequent reporting (at least quarterly or half yearly) is common with respect to the board monitoring the organisation’s progress against its strategic plan. Developing

²³ Australian Institute of Company Directors, 2016, *Governance relations: Role of the board*, Director Tools, Sydney, <http://aicd.companymdirectors.com.au/resources/director-tools/practical-tools-for-directors>, (accessed 4 Dec 2018).

and communicating a clear strategy for the organisation can help to build stakeholder and investor confidence”²⁴ (Australian Institute of Company Directors, 2016:5). The following section will cover examples of globally recognized board members.

1.9 Exemplary and globally recognized board members

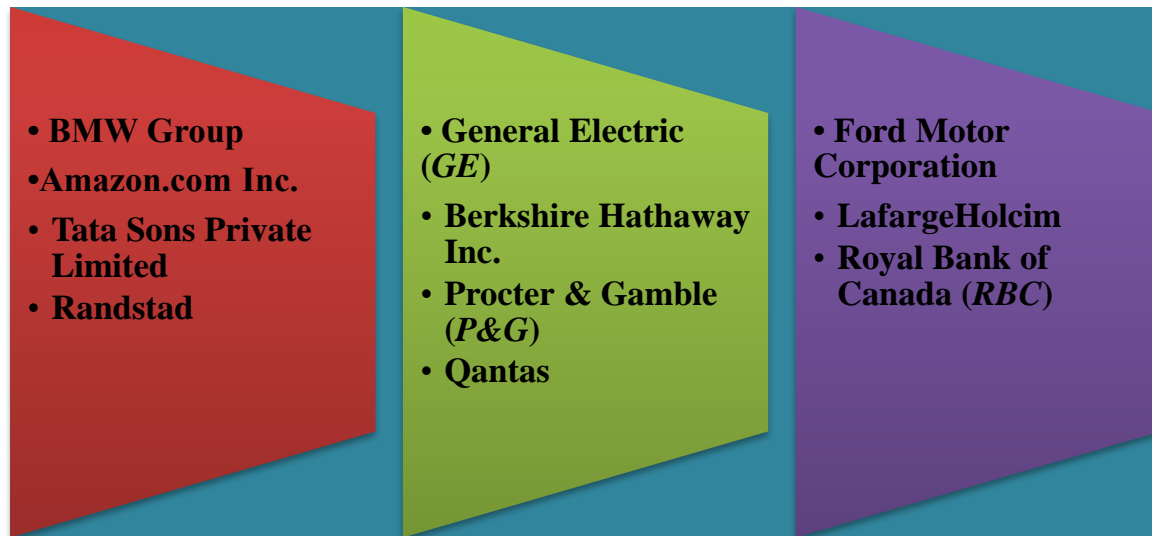
Generally board of directors reinforce the organization’s values, mission and vision amongst the people they lead in the organization so that they are willing to commit to be part of the future of the organization whilst simultaneously helping it to achieve its long term goals. Board of directors are generally found on the highest level of the organizational hierarchy and everyone in the organization looks up to them in almost everything related to decision-making, discipline, business growth, innovation, customer focus, change management, technology, brand management, new policy development, strategic planning, human resources management and so on. In essence a board of director is a symbol of success to employees as they inspire them to foresee the future and thus they must lead by example in everything they do in the organization. Board of directors are highly respected for their ethical behavior, expertise knowledge, strategic oversight and many other personal characteristics. Today the most powerful organizations in the world have highly effective good-to-great business leaders who sit in their boards. There are two types of boards namely: (1) a non-profit board and (2) a profit-making board.

1.9.1 Examples of profit-making organizations with outstanding board members

Some of the leading profit-making global organizations with remarkable board of directors are depicted in Figure 1.2 below including the names of some of their good-to-great board members.

²⁴ Australian Institute of Company Directors, 2016, *Governance relations: Role of the board*, Director Tools, Sydney, <http://aicd.companydirectors.com.au/resources/director-tools/practical-tools-for-directors>, (accessed 4 Dec 2018).

Figure 1.2 Eleven global organizations with outstanding board members



Source: Modified: (General Electric, 2010; General Electric, 2018, www.ge.com/; Warren Buffett, 2017:17; Berkshire Hathaway Inc., 2018, www.berkshirehathaway.com; Procter & Gamble, 2018, <https://us.pg.com/>; Qantas, 2019, <https://www.qantas.com/au/>; Ford Motor Corporation, 2019, <https://corporate.ford.com>; LafargeHolcim, 2019, <https://www.lafargeholcim.com/>; Royal Bank of Canada, <http://www.rbc.com/>).

1.9.1.1 BMW Group

Global automobile manufacturer Bayerische Motoren Werke AG known as BMW which is headquartered in Munich, Germany was founded on 21 July 1917 as Rapp Motoren Werke but was renamed to Bayerische Motoren Werke. After the Great War the brand “BMW” as well as all assets of the (aero-) engine business were transferred from this company to Bayerische Flugzeugwerke [BFW], which was founded on 7 March 1916. Since then, the BFW was named “Bayerische Motoren Werke”²⁵ (BMW Group, 2018). ²⁶“*Establishment of BMW*. BMW can trace its roots back to Karl Rapp and Gustav Otto. In 1916, the Flugmaschinefabrik Gustav Otto company had merged into Bayerische Flugzeug-Werke AG (BFW) at government behest. Elsewhere, in 1917, the Rapp Motorenwerke company became Bayerische Motoren Werke GmbH, which was duly converted into an AG (public limited company) in 1918. BMW AG

²⁵ BMW Group (2018) *Five BMW Milestones*. Available from: <https://www.bmwgroup.com/en/company.html>

²⁶ BMW Group (2019) *Company Portrait. BMW Group Profile*. Available from: <https://www.bmwgroup.com/en/company/company-portrait.html>

subsequently transferred its engine construction operations - including the company and brand names - to BFW in 1922. The date of BFW's founding, 7 March 1916, has therefore gone down in history as the foundation date of Bayerische Motoren Werke AG” (BMW Group, 2019, <https://www.bmwgroup.com/en/company.html>). The BMW Group has two boards namely; the board of management and the supervisory board. Today the Chairman of the board of management of BMW AG is Mr. Oliver Zipse. The current Chairman of the supervisory board of BMW AG since 2015 is Dr E.H. Norbert Reithofer who has three deputies under his leadership namely: Mr. Manfred Schoch the current Deputy Chairman and member of the supervisory board since 1988, appointed until 2024, while Mr. Stefan Quandt is another Deputy Chairman of the supervisory board since 1999 (*also a member of the board of supervisory since 1997*) and Mr. Stefan Schmid is the other current Deputy Chairman of the board of supervisory since 2008 (*also a member of the supervisory board since 2007*) (BMW Group, 2019, <https://www.bmwgroup.com/en/company/company-portrait.html>). ²⁷“Throughout its 100-year history, the BMW Group has always reinvented itself. As a pioneer of new technologies, the company has shaped change, within both the industry and the world of mobility,” commented Harald Krüger of BMW AG, at the Annual Accounts Press Conference in Munich on Wednesday” (Harald Krüger, BMW AG cited in (BMW Group, 2016, <https://www.press.bmwgroup.com/global/article/detail/T0258269EN/bmw-group-driving-the-transformation-of-individual-mobility-with-its-strategy-number-one-next?language=en>).

Milagros Caina Carreiro-Andree is a current Board Member (Human Resources) of BMW AG and she joined the BMW AG Board of Management in July 2012. Furthermore, another outstanding board member of the BMW Board of Supervisory is Susane Klatten who joined the BMW board in 1997 (BMW Group, 2018). ²⁸“As a German stock corporation (Aktiengesellschaft) governed by German stock corporation law BMW AG has three organs: The

²⁷ BMW Group (2016) *BMW Group Driving the Transformation of Individual Mobility with its Strategy NUMBER ONE > Next*. Available from: <https://www.press.bmwgroup.com/global/article/detail/T0258269EN/bmw-group-driving-the-transformation-of-individual-mobility-with-its-strategy-number-one-next?language=en>

²⁸ BMW Group (2016) *Corporate Governance Code: Principles of Corporate Governance*. Available from: https://www.bmwgroup.com/content/dam/bmw-group-websites/bmwgroup_com/company/downloads/en/2016/Corporate%20Governance%20Codex_BMW%20AG_Januar%202016_englisch.pdf p3-12.

Annual General Meeting (Hauptversammlung), the Supervisory Board (Aufsichtsrat) and the Board of Management (Vorstand). The Board of Management manages the Company under its own responsibility. As part of a dual leadership system, the Board of Management is advised and supervised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and, if there is good cause, can remove them from office at any time. The Board of Management keeps the Supervisory Board informed and reports to it regularly, without delay and comprehensively according to the principles of diligent and accurate accountability in accordance with the law and the reporting duties laid down by the Supervisory Board. For certain important transactions the Board of Management requires the consent of the Supervisory Board. However, the Supervisory Board is not authorized to take any management measures”²⁹ (BMW Group, 2016:3, www.bmwgroup.com/).

According to BMW Group (2016:8) The Board of Management of BMW AG tasks and responsibilities include: (1) The Board of Management manages the enterprise under its own responsibility and in the enterprise's best interests, i.e. taking into account the interests of the shareholders, the employees and other groups associated with the group (stakeholders) with the objective of creating sustainable added value. (2) The Board of Management develops the enterprise's strategy, coordinates it with the Supervisory Board and ensures its implementation. (3) The Board of Management ensures that all provisions of law and internal regulations are abided by and works to achieve their compliance throughout the group. (4) The Board of Management ensures that an appropriate risk management and risk controlling system is in place throughout the group. The Board of Management also considers diversity when making appointments to management positions and is striving, in particular, to take appropriate account of women. (5) The Board of Management has laid down targets for the share of women on the two management levels below the Board of Management (BMW Group, 2016:11). Furthermore, according to BMW Group (2016:11) The Supervisory Board of BMW AG tasks and

²⁹ BMW Group (2016) *Corporate Governance Code: Principles of Corporate Governance*. Available from: https://www.bmwgroup.com/content/dam/bmw-group-websites/bmwgroup.com/company/downloads/en/2016/Corporate%20Governance%20Codex_BMW%20AG_Januar%202016_englisch.pdf p3-12.

responsibilities include: (1) The task of the Supervisory Board is to advise regularly and supervise the Board of Management in the management of the BMW Group. It is involved in all decisions of fundamental importance for the BMW Group. (2) The Supervisory Board appoints and dismisses the members of the Board of Management. (3) The Supervisory Board has delegated the preparation of appointments to the Board of Management to a committee (Personnel Committee) which also handles the terms and conditions of employment contracts including compensation. (4) The Personnel Committee and the full Supervisory Board ensure, together with the Board of Management, that long-term succession planning is in place. In their assessment of candidates for a position on the Board of Management, the principal criteria applied by the Supervisory³⁰ (BMW Group, 2016:11).

1.9.1.2 Amazon.com Inc.

One of the most powerful brand in the world today is Amazon.com Inc. which is headquartered in Seattle, United States of America. The current President, Chief Executive Officer and Chairman of the Board of Amazon.com is Jeff Bezos³¹ (Amazon.com Inc., 2018). “Jeff Bezos founded Amazon.com in 1994. Amazon’s mission is to be Earth's most customer-centric company. Amazon offers low prices and fast delivery on millions of items, designs and builds the bestselling Kindle hardware, and empowers companies and governments in over 190 countries around the world with the leading cloud computing infrastructure through its Amazon Web Services offering” (Amazon.com Inc., 2018). Some of the officers of Amazon.com include: (1) Mr. Brian. T. Olsavsky who is the Senior Vice President and Chief Financial Officer and he joined Amazon.com in April 2002; (2) Andrew. R. Jassy the current CEO of Amazon Web Services (AWS) the world’s most comprehensive and broadly adopted cloud platform; (3) Shelly. L. Reynolds has served as Vice President, Worldwide Controller, and Principal Accounting Officer since April 2007, (4) Jeff Wilke has served as the CEO Worldwide Consumer since April

³⁰ BMW Group (2016) *Corporate Governance Code: Principles of Corporate Governance*. Available from: https://www.bmwgroup.com/content/dam/bmw-group-websites/bmwgroup_com/company/downloads/en/2016/Corporate%20Governance%20Codex_BMW%20AG_Januar%202016_englisch.pdf p3-12.

³¹ Amazon.com (2018) *Officers and Directors*. Available from: <https://ir.aboutamazon.com/board-of-directors>

2016, (5) David A. Zapolsky who is the current Senior Vice President, General Counsel and Secretary (Amazon.com Inc., 2018; Amazon.com Inc., 2019, <https://ir.aboutamazon.com/board-of-directors>). According to Amazon.com (2019) *Directors* - Jeffrey P. Bezos, Rosalind G. Brewer, Jamie S. Gorelick, Daniel P. Huttenlocher, Judith A. McGrath, Indra K. Nooyi, Jonathan J. Rubinstein, Thomas O. Ryder, Patricia Q. Stonesifer and Wendell P. Weeks (Amazon.com, 2019, <https://ir.aboutamazon.com/board-of-directors>). Today under the current leadership Amazon.com Inc. has prospered. ³²“Amazon ranks #1 on The Harris Poll’s Corporate Reputation survey, #2 on Fortune’s World’s Most Admired Companies, and #2 on LinkedIn’s U.S. most desirable companies list” (Amazon.com, 2018). Furthermore during the year 2018 Amazon.com Inc. expanded its Vancouver, Canada Tech Hub, adding 3000 high-tech jobs. ³³“Eventually Amazon expects to employ 5000 people in Vancouver, Amazon currently employs more than 1,000 researchers and engineers in the city, primarily creating new products and services for the company’s international retail businesses and Amazon Web Services (AWS)” (Amazon.com Inc., 2018). “Used with permission from Microsoft”. “Since 2012, Amazon has invested more than \$100 billion in the U.S., added \$45 billion to U.S. GDP, and added 125 U.S.-based jobs a day - or one job every ten minutes” (Amazon.com Inc., 2018).

1.9.1.3 Tata Sons Private Limited

³⁴“We are the Tata group. India’s only value based corporation-a visionary, a pioneer, a leader, since 1868. 1868: A startup. Today: A global enterprise. As a 29-year-old, Jamsetji Tata set up a trading firm in 1868. Today, the operating companies of the Tata group lead the nation in ten business verticals. 66% of Tata Sons is owned by trusts. The Tata Trusts promote education, health, culture and livelihood initiatives in India. The Trusts are focused on providing quality education for children, especially those from marginalized backgrounds. \$110.7bn in revenues in 2017 – 18. The combined market cap of Tata companies is \$145.3 billion (as on March 31,

³² Amazon.com (2018) *Job Creation & Investment*. Available from: <https://www.aboutamazon.com/job-creation-and-investment>

³³ Amazon.com (2018) *Amazon Expands Vancouver Tech Hub Adding 3000 High-Tech Jobs*. Available from: <https://blog.aboutamazon.com/job-creation-and-investment/in-photos-amazon-expands-vancouver-tech-hub-adding-3-000-high-tech-jobs>

³⁴ Tata Sons Private Limited (2019) *About Us*. Available from: <https://www.tata.com/about-us>

2018). Bombay House in Mumbai is the headquarters of the Tata group. There are 706,511 of us. And counting. The companies of the Tata group employ many of India's best and finest, strengthened by a culture of ethics and integrity. *Community-the purpose of our existence*. We are inspired by Jamsetji's words and deeds which have helped us contribute to society and help build fine institutions. Tata Medical Center, Kolkata, provides free or subsidised cancer care to underprivileged patients in the region" (Tata Sons Private Limited, 2019, <https://www.tata.com/about-us>). "N Chandrasekaran Executive Chairman. Natarajan Chandrasekaran is Chairman of the board of Tata Sons, the holding company and promoter of more than 100 Tata operating companies with aggregate annual revenues of more than US\$100 billion. He joined the board of Tata Sons in October 2016 and was appointed Chairman in January 2017. Chandra also chairs the Boards of several group operating companies, including Tata Steel, Tata Motors, Tata Power, Tata Global Beverages Limited, Indian Hotels Company Limited and Tata Consultancy Services (TCS) – of which he was Chief Executive Officer from 2009-17. The Tata group companies include 29 publicly-listed corporations with a combined market capitalization that exceeded US \$120 billion at the start of 2017"³⁵ (Tata Sons Private Limited, 2019, <https://www.tata.com/management-team#/management-team/n-chandrasekaran>).³⁶"*Ratan N Tata Chairman Emeritus*. Ratan N Tata was the Chairman of Tata Sons, one of the two promoter holding companies of the Tata group, from 1991 till his retirement on December 28, 2012. He was also chairman of the major Tata companies, including Tata Motors, Tata Steel, Tata Consultancy Services, Tata Power, Tata Global Beverages, Tata Chemicals, Indian Hotels and Tata Teleservices. During his tenure, the group's revenues grew manifold, totalling over \$100 billion in 2011-12. Mr. Tata is also associated with various organisations in India and overseas. He is the chairman of two of the largest private-sector-promoted philanthropic trusts in India. He is a member of the Indian Prime Minister's Council on Trade and Industry. He is the president of the Court of the Indian Institute of Science and chairman of the Council of Management of the Tata Institute of Fundamental Research. He also serves on the board of trustees of Cornell University and the University of Southern California. Mr. Tata serves on the

³⁵ Tata Sons Private Limited (2019) *N. Chandrasekaran: Executive Chairman*. Available from: <https://www.tata.com/management-team#/management-team/n-chandrasekaran>

³⁶ Tata Sons Private Limited (2019) *Ratan N Tata Chairman Emeritus*. Available from: <https://www.tata.com/management-team#/management-team/rnt>

board of directors of Alcoa, and is also on the international advisory boards of Mitsubishi Corporation, JP Morgan Chase, Rolls-Royce, Temasek Holdings and the Monetary Authority of Singapore. The Government of India honoured Mr. Tata with its second-highest civilian award, the Padma Vibhushan, in 2008. He has also received honorary doctorates from several universities in India and overseas” (Tata Sons Private Limited, 2019, <https://www.tata.com/management-team#/management-team/rnt>). According to Tata Sons Private Limited (2019) *Board of Directors*: N. Chandrasekaran (*Executive Chairman*); Farida Khambata (*Director*); Venu Srinivasan (*Director*); Ajay Piramal (*Director*); Dr. Ralph Speth (*Director*); Bhaskar Bhat (*Director*)³⁷ (Tata Sons Private Limited, 2019, <https://www.tata.com/management-team>).

1.9.1.4 Randstad

Another leading global organization that has an effective leadership team and board is Randstad a recruitment and HR solutions organization and it operates in a total of 39 countries around the world³⁸. “*Randstad is a global leader in the HR services industry. We are specialized in recruitment and HR solutions. Our services range from regular temporary Staffing and permanent placements to Inhouse Services, Professionals, and HR Solutions. In 1960 Randstad founder Frits Goldschmeding believed the labor market could be different and better through temporary labor. His vision has grown into a global HR services industry*”³⁹ ⁴⁰ (Randstad, 2018, www.randstad.com). According to Randstad (2018) the executive board is accountable for developing, driving, executing and achieving the approved Group strategy and strategic targets. The executive board is also responsible for the associated risk profile, sound business and financial controls, development of results and dealing with corporate responsibility issues, while simultaneously respecting policies that have been set⁴¹. Some of the board members of Randstad include: (1) Jacques van Den Broek who was first appointed in the executive board in 2004 and

³⁷ Tata Sons Private Limited (2019) *Tata group: Leadership Team*. Available from:

<https://www.tata.com/management-team>

³⁸ Randstad (2018) *About Randstad*. Available from: <https://www.randstad.com/about-randstad/>

³⁹ Randstad (2018) *About Randstad*. Available from: <https://www.randstad.com/about-randstad/>

⁴⁰ Randstad (2018) *Company Profile*. Available from: <https://www.randstad.com/about-randstad/company-profile/>

⁴¹ Randstad (2018) *Company Profile*. Available from: <https://www.randstad.com/about-randstad/company-profile/>

during the year 2014 he was appointed CEO. Jacques van Den Broek is responsible for Germany, the UK, Australia, New Zealand, China, Japan, India, Hong Kong, Singapore & Malaysia; (2) Henry Schirmer was appointed in 2018 and he joined Randstad during the year 2018; (3) Francois Beharel was appointed in 2013 and is the current president & CEO of the Randstad Group France and he is responsible for France, Spain, Belgium & Luxembourg, Portugal, Brazil, Argentina, Mexico, Chile and Uruguay; (4) Linda Galipeau was first appointed in the executive board in 2012 and in 2008 she was appointed President of Randstad Staffing in the USA; (5) Chris Heutink was appointed in the executive board in 2014 and in 2009 he became managing director for Randstad Netherlands and he is responsible for all operations in the Netherlands, Denmark, Sweden, Norway, Austria, Italy, Switzerland, Poland, Turkey, Greece, Czech Republic, Hungary and Romania⁴² (Randstad, 2018, www.randstad.com/).

1.9.1.5 General Electric (GE)

One of the largest organizations in the world that is known for having effective leaders and boards is Boston, Massachusetts, United States of America-based General Electric⁴³. General Electric (GE) is a multinational conglomerate corporate which was founded in 1892 by Thomas Edison (*inventor of the first electrical bulb*) and Charles Coffin (General Electric, 2018). GE operates in the following market segments: aviation, healthcare, transportation, financial services, analytics and software development, power, oil & gas and so on (General Electric, 2018). “*The GE Board held nine meetings in 2010. Each outside Board member is expected to visit at least two GE businesses without the involvement of corporate management in order to develop his or her own feel for the company.* Board members focus on the areas that are important to shareowners—strategy, risk management, leadership development and regulatory matters. In 2010, they received briefings on a variety of issues, including U.S. and global tax policy, environmental risk management and reserves, pension and healthcare plans, financial structure, liquidity, regulation and ratings, service contract performance, credit costs and real estate exposure, controllership and emerging rules, and managing brand value and reputation. At

⁴² Randstad (2018) *Meet our Executive Board*. Available from: <https://www.randstad.com/about-randstad/corporate-governance/management/executive-board/>

⁴³ General Electric (2018) *From Inspiration to Industry*. Available from: <http://www.ge.com/about-us/history/1878-1904>

the end of the year, the Board and each of its committees conducted a thorough self-evaluation”⁴⁴ (General Electric, 2010).

1.9.1.6 Berkshire Hathaway Inc.

One of the most powerful brand in the world today and with strong governance standards is Berkshire Hathaway and by March 31, 2018 Berkshire Hathaway consolidated balance sheet highlighted that the investment company had a total asset value of USD\$702,651 billion^{45 46} (Warren Buffett, 2017:17; Berkshire Hathaway Inc., 2018, www.berkshirehathaway.com). The current Chairman of the Board and CEO of Berkshire Hathaway is Mr. Warren Edward. Buffett and the current Vice-Chairman of Berkshire Hathaway is Mr. Charlie Munger⁴⁷ (Berkshire Hathaway Inc., 2001, www.berkshirehathaway.com). “Berkshire Hathaway expanded its board of directors to 14 members from 12. Gregory E. Abel and Ajit Jain are being added as directors. Warren Buffett and Charlie Munger will retain their positions on the board. The company said Wednesday that Buffett and Charles T. Munger, Berkshire Hathaway's vice chairman, will retain their positions on the board. Abel, chairman and CEO of Berkshire Hathaway Energy Co., is being named vice chairman of non-insurance business operations. Jain is being appointed vice chairman of insurance operations. He currently serves as executive vice president of National Indemnity Co. Abel, chairman and CEO of Berkshire Hathaway Energy Co., is being named vice chairman of non-insurance business operations”⁴⁸ (Businessinsider.com, 2018, www.businessinsider.com/). “Berkshire Hathaway and its subsidiaries engage in diverse business activities including insurance and reinsurance, utilities and energy, freight rail transportation,

⁴⁴ General Electric (2010) *Board of Directors*. Available from: <https://www.ge.com/ar2010/board.html>

⁴⁵ Warren Buffett (2017) *To the Shareholders of Berkshire Hathaway Inc.* Available from: <http://www.berkshirehathaway.com/letters/2017ltr.pdf> “The material is copyrighted and used with permission of the author”. Debra Ray for Warren Buffett

⁴⁶ Berkshire Hathaway Inc. (2018) *First Quarter Report. March*. Available from: <http://www.berkshirehathaway.com/qtrly/1stqtr18.pdf> “The material is copyrighted and used with permission of the author”. Debra Ray for Warren Buffett

⁴⁷ Berkshire Hathaway Inc. (2001) *Directors*. Available from: www.berkshirehathaway.com/2001ar/directors.html “The material is copyrighted and used with permission of the author”. Debra Ray for Warren Buffett

⁴⁸ Businessinsider.com (2018) *Warren Buffett's Berkshire Hathaway Expands its Board*. Available from: <https://www.businessinsider.com/warren-buffetts-berkshire-hathaway-expands-its-board-2018-1>

finance, manufacturing, retailing and services. Common stock of the company is listed on the Stock Exchange, trading symbols BRK.A and BRK.B.”⁴⁹ (Berkshire Hathaway Inc., 2018). A letter issued by Mr. Warren Edward. Buffett to the shareholders of Berkshire Hathaway Inc. published in 1996 when he issued a booklet entitled “*An Owner’s Manual*” to Berkshire’s Class A and Class B shareholders supports the fact that entrepreneurs who are successful in most instances are those who sincerely love their business and what it stands for. Notably, at the end of the letter Mr. Warren Edward. Buffett clearly states that “*Lest we end on a morbid note, I also want to assure you that I have never felt better. I love running Berkshire, and if enjoying life promotes longevity, Methuselah’s record is in jeopardy. Warren*”⁵⁰ (Warren Buffett, 1996:23). “*The material is copyrighted and used with permission of the author*”. Debra Ray for Warren Buffett.

1.9.1.7 Procter & Gamble (P&G)

Multinational consumer goods manufacturer Procter & Gamble, headquartered in Cincinnati, Ohio, USA producers of personal care, grooming, hair care, baby diapers and feminine hygiene brands is another good example of an organization with good-to-great leaders who are members of its board of directors. P&G was founded by William Procter, emigrating from England, who established himself as a candle maker in Cincinnati while James Gamble, an immigrant from Ireland, apprenticed himself as a soap maker. These two entrepreneurs might never have met had they not married sisters called Olivia and Elizabeth Norris. It was their father, Alexander Norris that noted his two new sons-in-law were competing for the same raw materials. He suggested they become business partners. What began as a family-run candle and soap business during 1837 eventually grew into the largest and most profitable consumer goods company in the world⁵¹ (Procter & Gamble, 2018). The current chairman of the Board, President and CEO is

⁴⁹ Berkshire Hathaway Inc. (2018) *List of Subsidiaries*. Available from:

<http://www.berkshirehathaway.com/subs/sublinks.html> “*The material is copyrighted and used with permission of the author*”. Debra Ray for Warren Buffett

⁵⁰ Warren Buffett (1996) *An Owner’s Manual*. Available from: <http://www.berkshirehathaway.com/ownman.pdf> “*The material is copyrighted and used with permission of the author*”. Debra Ray for Warren Buffett

⁵¹ Procter & Gamble (2018) *History of Sustainability*. Available from: <https://us.pg.com/sustainability/at-a-glance/history-of-sustainability>

David Taylor. ⁵²Some of the current board of directors of Procter & Gamble include: (1) Francis Blake (*Member of the Audit and Governance & Public Responsibility Committees*), (2) Angela F. Braly (*Chair of the Governance & Public Responsibility Committee and member of the Audit Committee*), (3) Amy L. Chang (*Member of the Audit and Innovation & Technology Committees*), (4) Scott. D. Cook (*Chair of the Innovation & Technology Committee and member of the Compensation & Leadership Development Committee*) and many other board members⁵³ (Procter & Gamble, 2018). Procter & Gamble is a global consumer products company, serving consumers around the world with sales in more than 180 countries and territories. A company of our size must have strong governance, as well as leaders who understand our diverse consumers and global needs. The current composition of the Board reflects an appropriate mix of skill sets, experience, and qualifications that are relevant to the business and governance of the Company. Each Director epitomizes the Company's Purpose, Values and Principles, possesses the highest ethics and integrity, and demonstrates commitment to representing the long-term interests of the Company's shareholders. Each Director also has individual experiences that provide practical wisdom and foster mature judgment in the boardroom. Collectively, the Directors bring business, international, government, technology, marketing, retail consumer products, and other experiences pertinent to the Company's global operations. The Board has general oversight responsibility for the Company's affairs pursuant to Ohio's General Corporation Law, the Company's Amended Articles of Incorporation and Code of Regulations, and the Board of Directors' By-Laws. In exercising its fiduciary duties, the Board of Directors represents and acts on behalf of the Company's shareholders. Additional details regarding the role and structure of the Board are contained in the Board's Corporate Governance Guidelines (Procter & Gamble, 2018).

1.9.1.8 Qantas

Generally one of the most reliable good indicators of an organization with good leadership is an organization's level of success (Muteswa, 2016). A typical good example of a leading, successful and well led organization that has successfully managed to adopt and effectively execute its

⁵² Procter & Gamble (2018) *Leadership Team*. Available from: <https://us.pg.com/who-we-are/leadership-team>

⁵³ Procter & Gamble Inc. (2018) *Structure & Governance*. Available from: <https://us.pg.com/structure-and-governance/board-of-directors-composition/>

corporate governance responsibility is Qantas Airways.⁵⁴“Founded in the Queensland outback in 1920, Qantas has grown to be Australia's largest domestic and international airline. Registered originally as the Queensland and Northern Territory Aerial Services Limited (QANTAS), Qantas is widely regarded as the world's leading long distance airline and one of the strongest brands in Australia. We've built a reputation for excellence in safety, operational reliability, engineering and maintenance, and customer service. The Qantas Group's main business is the transportation of customers using two complementary airline brands - Qantas and Jetstar” (Qantas, 2019, <https://www.qantas.com/au/en/about-us.html>). The former chairman and independent non-executive director of Qantas was Leigh Clifford an exemplary leader who has played a critical role in making Qantas into a world class brand and airline. Leigh Clifford was appointed to the Qantas Board in August 2007 and as Chairman in November 2007 and was the Chairman of the Nominations Committee (Qantas, 2018). The current new Chairman and Independent Non-Executive Director of Qantas is Richard Goyder and he was appointed to the Qantas Board in November 2017. Mr. Richard Goyder is the current Chairman of the Nominations Committee⁵⁵ (Qantas, 2018, <https://www.qantas.com/us/en/qantas-group/acting-responsibly/our-leadership.html>).⁵⁶“The 11-member Board comprises a majority of independent Non-Executive Directors who, together with the Executive Director (Group CEO), have extensive experience and diverse perspectives. They bring independence, accountability and judgement to the Board's deliberations to ensure maximum benefit to shareholders, customers, suppliers, employees, government regulators and members of the community where Qantas operates. The Board is made up of four women and seven men” (Qantas, 2018, <https://www.qantas.com/travel/airlines/governance-structure/global/en>).⁵⁷Some of the remarkable board of directors of Qantas include: (1) Alan Joyce who was appointed Chief Executive Officer and Managing Director of Qantas in November 2008 and he is a Member of the Safety, Health, Environment and Security Committee, (2) Maxine Brenner (*Independent*

⁵⁴ Qantas (2019) *About Us*. Available from: <https://www.qantas.com/au/en/about-us.html>

⁵⁵ Qantas (2018) *Our Leadership*. Available from: <https://www.qantas.com/us/en/qantas-group/acting-responsibly/our-leadership.html>

⁵⁶ Qantas (2018) *Corporate Governance*. Available from: <https://www.qantas.com/travel/airlines/governance-structure/global/en>

⁵⁷ Qantas (2018) *Our Leadership*. Available from: <https://www.qantas.com/us/en/qantas-group/acting-responsibly/our-leadership.html>

Non-Executive Director) who was appointed to the Qantas Board in August 2013 and she is a Member of the Remuneration Committee and the Audit Committee, (3) Richard Goodmanson (*Independent Non-Executive Director*) was appointed to the Qantas Board in June 2008 and he is Chair of the Safety, Health, Environment and Security Committee and a Member of the Nominations Committee, (4) Jacqueline Hey (*Independent Non-Executive Director*) who was appointed to the Qantas Board in August 2013 and she is a Member of the Audit Committee, (5) Belinda Hutchinson (*Independent Non-Executive Director*) who was appointed to the Qantas Board in April 2018 and she is a Member of the Safety, Health, Environment and Security Committee and the Remuneration Committee, (6) Michael L'Estrange (*Independent Non-Executive Director*) who was appointed to the Qantas Board in April 2016 and he is a member of the Safety, Health, Environment and Security Committee and many other board of directors (Qantas, 2018, <https://www.qantas.com/us/en/qantas-group/acting-responsibly/our-leadership.html>).

1.9.1.9 Ford Motor Corporation

Another good example of a well led and innovation centered organization is the Ford Motor Company which is based in Dearborn, Detroit (United States of America) founded by one of the world's unquestionable greatest iconic entrepreneurs Henry Ford on June 16, 1903. “*For Henry Ford, the goal of this revolution was to “put the world on wheels,” and this vision has driven innovation at Ford Motor Company ever since*”⁵⁸ (Ford Motor Corporation, 2018). “*We use Henry Ford’s spirit of innovation as a benchmark for bringing new technologies into the manufacturing process.*”⁵⁹ (Ford Motor Corporation, 2018). “*One hundred years ago, my great-grandfather had a vision to build safe and efficient transportation for everyone,*” said Ford Executive Chairman Bill Ford. “*I am proud he was able to bring the freedom of mobility to millions by making cars affordable to families and that his vision of serving people still drives everything we do today.*” (Ford Motor Corporation, 2019, <https://corporate.ford.com/articles/history/100-years-moving-assembly-line.html>). The current Executive Chairman of the Ford Motor Corporation is William Clay Ford Jr. (*who is also a*

⁵⁸ Ford Motor Company (2018) *Our Story*. Available from: <https://corporate.ford.com/history.html>

⁵⁹ Ford Motor Corporation (2018) *Innovation: Research and Innovation Center*. Available from: <http://corporate.ford.com/innovation/research-and-innovation-center.html>

member of the board) while the current President and Chief Executive Officer is Jim Hackett (who is also a member of the board). The other good-to-great business leaders who are part of the board of directors of the Ford Motor Corporation include: Stephen G. Butler; Kimberly Casiano; Anthony F. Earley, Jr.; Edsel B. Ford II; William W. Helman IV; William E. Kennard; John C. Lechleiter, PH.D. and Beth Mooney⁶⁰ (Ford Motor Corporation, 2019, <https://media.ford.com/content/fordmedia/fna/us/en/people.filter.members-of-the-board.0.10.html>). ⁶¹“Ford has a long history of operating under sound corporate governance practices. Our corporate officers and board of directors are dedicated to serving the interests of our shareholders and creating long-term value” (Ford Motor Corporation, 2018). ⁶²“*Innovation that Changed the World*. One hundred years ago today, Henry Ford and his team at Highland Park assembly plant launched the world’s greatest contribution to manufacturing – the [first moving assembly line](#). It simplified assembly of the Ford Model T’s 3,000 parts by breaking it into 84 distinct steps performed by groups of workers as a rope pulled the vehicle chassis down the line. The new process revolutionized production and dropped the assembly time for a single vehicle from 12 hours to about 90 minutes. By reducing the money, time and manpower needed to build cars as he refined the assembly line over the years, Ford was able to drop the price of the Model T from \$850 to less than \$300. For the first time in history, quality vehicles were affordable to the masses. Eventually, Ford built a Model T every 24 seconds and sold more than 15 million worldwide by 1927, accounting for half of all automobiles then sold. “*Ford’s new approach spread rapidly, not only to other automakers but also to manufacturers of phonographs, vacuum cleaners, refrigerators and other consumer goods,*” said Bob Casey, former curator of transportation at The Henry Ford, and author of *The Model T: A Centennial History*. “The assembly line became the characteristic American mode of production”” (Ford Motor Corporation, 2019, <https://corporate.ford.com/articles/history/100-years-moving-assembly-line.html>).

⁶⁰ Ford Motor Corporation (2019) *Members of the Board*. Available from:

<https://media.ford.com/content/fordmedia/fna/us/en/people.filter.members-of-the-board.0.10.html>

⁶¹ Ford Motor Corporation (2018) *Corporate Governance: Executive Team*. Available from:

<https://shareholder.ford.com/investors/corporate-governance/executive-team/default.aspx>

⁶² Ford Motor Corporation (2019) *100 Years Moving Assembly Line*. Available from:

<https://corporate.ford.com/articles/history/100-years-moving-assembly-line.html>

1.9.1.10 LafargeHolcim

A typical good example of a leading global organization with a powerful employer brand and an employer of first choice status for many highly talented job seekers and with a board that is comprised of good-to-great leaders is LafargeHolcim, headquartered in Jona, Switzerland. The current Chairman of LafargeHolcim is Mr. Beat Hess and the Vice Chairman is Mr. Oscar Fanjul. The other board of directors of LafargeHolcim include: Mr. Paul Desmarais Jr., Mr. Patrick Kron, Mr. Adrian Loader, Mr. Jürg Oleas, Ms. Hanne Birgitte Breinbjerg Sørensen, Dr. Dieter Spälti, Mr. Colin Hall, Ms. Naina Lal Kidwai and Ms. Claudia Sender Ramirez⁶³ (LafargeHolcim, 2019, <https://www.lafargeholcim.com/board-directors>). “LafargeHolcim is the global leader in building materials and solutions. We are active in four business segments: Cement, Aggregates, Ready-Mix Concrete and Solutions & Products. With leading positions in all regions of the world and a balanced portfolio between developing and mature markets, LafargeHolcim offers a broad range of high-quality building materials and solutions. LafargeHolcim experts solve the challenges that customers face around the world, whether they are building individual homes or major infrastructure projects. Demand for LafargeHolcim materials is driven by global population growth, urbanization, improved living standards and sustainable solutions construction. Around 75,000 people work for the company in around 80 countries”⁶⁴ (LafargeHolcim, 2019, <https://www.lafargeholcim.com/our-strategy>). “*Board of Directors*. The Board is comprised of eleven Board members, all of who are independent according to the Swiss Code of Best Practice for Corporate Governance and the criteria laid out by the DJSI. Furthermore, the company has set a policy that the majority of Directors on the Board shall be independent. Board members are expected to attend all regular meetings. With regard to Board composition, the Nomination, Compensation and Governance Committee considers diversity (including but not limited to: origin, domicile, gender, age and professional background) as well as such other factors necessary to address current and anticipated needs of the Company” (LafargeHolcim, 2019, <https://www.lafargeholcim.com/board-directors>).

⁶³ LafargeHolcim (2019) *Board of Directors*. Available from: <https://www.lafargeholcim.com/board-directors>

⁶⁴ LafargeHolcim (2019) *Our Strategy*. Available from: <https://www.lafargeholcim.com/our-strategy>

1.9.1.11 'Royal Bank of Canada' (RBC)

A typical example of a global organization with a board that is made up of good-to-great leaders with exemplary leadership qualities is the 'Royal Bank of Canada' (RBC). The current Chair of the Board of RBC is Ms. Kathleen Taylor and the current President & CEO of RBC is Mr. David McKay. The other board of directors of the 'Royal Bank of Canada' (RBC) include: Mr. Andrew A. Chisholm, Ms. Jacynthe Côté, Mr. Toos N. Daruvala, Mr. David F. Denison, Ms. Alice D. Laberge, Mr. Frank M. Vettese, Mr. Michael H. McCain, Ms. Heather Munroe-Blum, Ms. Bridget A. van Kralingen, Mr. Thierry Vandal and Mr. Jeffery W. Yabuki⁶⁵ (Royal Bank of Canada, 2019, <http://www.rbc.com/governance/directors.html>). "Corporate Governance: The strengths of our governance start at the top, with an independent chairman leading a board composed of independent, well-informed directors, who give priority to strategic planning, ensure that standards exist to promote ethical behaviour throughout the organization, and seek continuous improvement in governance practices. These strengths are fostered throughout the organization by a proactive governance culture that has consistently adopted industry-leading standards. Royal Bank of Canada was constituted in 1869 under a private act of Canada and is governed by the *Bank Act*, S.C. 1991, C. 46." (Royal Bank of Canada, 2019, <http://www.rbc.com/governance/index.html>).⁶⁶"*Quick Facts*. Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC.

- We are one of Canada's biggest banks, and among the largest in the world based on market capitalization.
- We have 86,000+ full- and part-time employees who serve 16 million clients in Canada, the U.S. and 34 other countries.
 - We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management, insurance, investor services and capital

⁶⁵ Royal Bank of Canada (2019) *Governance: Directors*. Available from: <http://www.rbc.com/governance/directors.html> Reproduced with permission of Royal Bank of Canada.

⁶⁶ Royal Bank of Canada (2019) *Quick Facts*. Available from: <https://www.rbc.com/our-company/index.html> Reproduced with permission of Royal Bank of Canada.

markets products and services on a global basis” (Royal Bank of Canada, 2019, <https://www.rbc.com/our-company/index.html>). *Reproduced with permission of Royal Bank of Canada.*

1.9.2 Examples of non-profit making organizations with outstanding board members

Responsibility, accountability, strong governance and integrity are some of the qualities associated with all boards in general. A non-profit making organization’s main purpose is not to make profit from the people it aims to serve with its products/services. There are many reputable and powerful non-profit making organizations around the world that are significantly contributing to the upliftment of societal development in the economic sectors they serve or operate as a result of their effective leadership team and boards. Some of the non-profit making organizations that have a global development impact are depicted in Figure 1.3 below.

Figure 1.3 Seven examples of non-profit making organizations with outstanding boards



Source: Modified: (Australian HR Institute, 2018, www.ahri.com.au/; Australian Institute of Company Directors, 2018, <http://aicd.companydirectors.com.au/>; Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/>; Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/; National Association of Corporate Directors, 2018, www.nacdonline.org/).

1.9.2.1 Australian Human Resources Institute (AHRI)

“The Australian HR Institute (AHRI) is the national association representing human resource and people management professionals. We have around 20,000 members from Australia and across the globe. AHRI sets the professional standard for HR in Australia through HR certification; provides formal education and training services in HR, people management and business skills; produces world-class conferences; and holds seminars and networking opportunities all over Australia – including our biggest annual event – the AHRI National Convention. Each year, AHRI commends excellence in HR practice across Australia through the highly regarded AHRI Awards. AHRI is owned by its members and governed by a Board of Directors with a Council of State Presidents that comprises an elected president representing each state and territory of Australia”⁶⁷ (Australian HR Institute, 2018, www.ahri.com.au/). The current National President and Chairman of the Australian HR Institute Limited is Peter Wilson while the Chief Executive Officer of the Australian HR Institute since December 2012 is Lyn Goodear. Lyn Goodear champions the standards of HR practice in Australia and is responsible for leading change that builds organisation capability for the future workforce in areas such as productivity and sustainability, as well as cultivating workplace cultures that are inclusive, diverse and ethical. Some of the board of directors of the Australian HR Institute Limited include: (1) Carmel McGregor who is currently an Adjunct Professor and a private consultant. McGregor was awarded the Public Service Medal in 2012 for her contribution to public sector reform, (2) Jon Scriven who retired from Qantas in December 2017 having joined Qantas in April 2009 as Group Executive People, (3) Caroline McGuire who is a commercially focused, strategic and passionate senior human resources professional with over 20 years of experience across a range of industries. Caroline is also the President of the Queensland State Council of AHRI, and sits on the Board of Management Re-think Re-engage Australia (Australian HR Institute, 2018, www.ahri.com.au/).⁶⁸ According to Australian HR Institute (2018) *Board of Directors*. AHRI is governed by a Board of Directors, which is vested with the overall responsibility of governance

⁶⁷ Australian HR Institute (2018) *About Us*. Available from: <https://www.ahri.com.au/about-us>

⁶⁸ Australian HR Institute (2018) *Board of Directors*. Available from: <https://www.ahri.com.au/about-us/the-organisation-structure/board-of-directors>

of AHRI Limited and executes this responsibility independently, in the best interests of the company.

The *key functions of the Board* are to:

- Set strategies, goals and objectives in conjunction with management, as part of an institutionalised strategic planning process
- Appoint the CEO, approve appointment of the National President; and manage their performance
- Approve operational and capital budgets; and, monitor organisational performance
- Ensure existence of and approve an appropriate framework of operations, risk and compliance policies; and, exercise related controls
- Network on behalf of the organisation to assist in achieving organisational goals
- Communicate with stakeholders, particularly with members, as necessary (Australian HR Institute, 2018, www.ahri.com.au/).

1.9.2.2 Australian Institute of Company Directors (AICD)

A typical non-profit making organization that has an outstanding inspiring leadership team and board of directors is the Australian Institute of Company Directors. “*Strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society*”⁶⁹ (Australian Institute of Company Directors, 2018, <http://aicd.companydirectors.com.au/>). Furthermore, according to the Australian Institute of Company Directors (2018) our membership of more than 43,000 includes directors and senior leaders from business, government and the not-for-profit sectors. *Organisational structure.* We are a national organisation with seven state and territory divisions. Our national Board, which consists of up to 12 directors, is our governing body. Our Board is comprised of not less than two and not more than four National directors, seven Division

⁶⁹ Australian Institute of Company Directors, 2018, *About*, Sydney, <http://aicd.companydirectors.com.au/about#collapse81f72693-64c1-4358-bac7-2b3e12a4ca7b> (accessed 25 Nov 2018).

directors, and a Chief Executive Officer who may be appointed as a Director by the Board. The Board appoints the chair (Australian Institute of Company Directors, 2018, <http://aicd.companydirectors.com.au/>). The current Chairman of Australian Institute of Company Directors is Elizabeth Proust who joined the AICD Board in March 2014 and was appointed Chairman in December 2015. While the current Deputy Chair is Gene Tilbrook who is the Chair of the Board Risk & Compliance Committee and a Member of the Board Nominations Committee. Some of the board of directors of the AICD include: (1) David Bayes who is the Chair of the Board Human Resources & Remuneration Committee, Chair of the National Membership Committee and a Member of the Board Audit, Finance & Investment Committee; (2) Michael Coleman who is the Chair of the Board Audit, Finance & Investment Committee and a Member of the National Membership Committee; (3) Tracey Horton who is a Member of the Board Human Resources & Remuneration Committee⁷⁰ (Australian Institute of Company Directors, 2018, <http://aicd.companydirectors.com.au/>).

1.9.2.3 The Institute of Directors in New Zealand

“The Institute of Directors in New Zealand connects, equips and inspires its more than 9,000 members, to add value across New Zealand business and society. Through thought leadership, our extensive network, professional governance courses, events and resources. The IoD in New Zealand began over 40 years ago as a division of the Institute of Directors in the UK. In 1989 the Institute of Directors in New Zealand (Inc) adopted its own constitution and became a separate legal entity”⁷¹ (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/About-us>). “The Institute of Directors is governed by a national council. In March of each year, branch committees elect members to represent them on the national council. The council elects the president and vice president annually. The Institute of Directors in New Zealand Limited (IoD Ltd) is the commercial arm of the IoD. Its purpose is to ensure our training and services are relevant to the ongoing needs of members and the governance community and perform robustly commercially. IoD Ltd has a separate board structure” (Institute of Directors in New Zealand,

⁷⁰ Australian Institute of Company Directors, 2018, *About*, Sydney, <http://aicd.companydirectors.com.au/about#collapse81f72693-64c1-4358-bac7-2b3e12a4ca7b> (accessed 25 Nov 2018).

⁷¹ Institute of Directors in New Zealand (2018) *About Us*. Available from: <https://www.iod.org.nz/About-us>

2018, <https://www.iod.org.nz/About-us/Council>).⁷²The 2019 – 2020 current President of the Institute of Directors in New Zealand is Alan Isaac and the Vice President is Julia Hoare. Some of the members of the IoD Council include: (1) Dr Helen Anderson, (2) Bryan Graham, (3) Jackie Lloyd, (4) Simon Lockwood, (5) Vincent Pooch, (6) Trish Oakley, (7) Clayton Wakefield and (8) Sarah-Jane Weir (Institute of Directors in New Zealand, 2019, <https://www.iod.org.nz/About-us/Council>).

1.9.2.4 The Human Resources Institute of New Zealand (HRINZ)

According to the Human Resources Institute of New Zealand (2018) The Human Resources Institute of New Zealand (HRINZ) is the professional organisation for those who are interested in or involved in Human Resource Management and development of people. We represent the interests of 3000+ individual members, who represent around 45% of the known New Zealand HR market. HRINZ members include those working in private and public sector organisations, as well as students and academics⁷³ (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/). “HRINZ is governed by a Board of up to eight elected Directors. These Directors serve for an initial three year term and can be re-elected once. There is a succession plan for elected Directors which means new people join and exit the Board each year”⁷⁴ (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/). The current 2018 National President is Julia Stones while the national Vice President is Matt Carter and the National Chair Diane Edwards⁷⁵ (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/). “The Human Resources Institute of New Zealand (HRINZ) was born on 1 April 1999 as a result of the rebranding of the Institute of Personnel Management (New Zealand). The parent body, IPMNZ, was established in 1985, as a result of a move away from the New Zealand Institute of Management. Previously the two bodies operated under the one broad umbrella” (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/). According to the Human

⁷² Institute of Directors in New Zealand (2019) *Council*. Available from: <https://www.iod.org.nz/About-us/Council>

⁷³ Human Resources Institute of New Zealand (HRINZ) (2018) *About HRINZ*. Available from: <https://www.hrinz.org.nz/Site/About/>

⁷⁴ Human Resources Institute of New Zealand (2018) *HRINZ Board*. Available from: https://www.hrinz.org.nz/Site/About/Committees/national_board.aspx

⁷⁵ Human Resources Institute of New Zealand (2018) *National Board*. Available from: https://www.hrinz.org.nz/Site/About/Committees/national_board.aspx

Resources Institute of New Zealand (HRINZ) (2018) Role of National Board. The *objectives of the Institute* are to:

- encourage, and support the development of professional knowledge and competence and high standards of performance among its members;
- promote understanding of all aspects of human resources management and development and its contribution to the performance of individuals and organisations; and
- provide an authoritative and influential viewpoint on all matters affecting its members and the management and development of human resources.

This it achieves specifically by:

- establishing, maintaining and auditing high standards of professionalism for those who are admitted as certificate members of the Institute;
- ensuring members can access Institute initiated up-to-date, timely and relevant: information, development opportunities and networks⁷⁶ (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/).

1.9.2.5 National Association of Corporate Directors (NACD)

A typical good example of a non-profit making organization that has effective board members with strong leadership qualities is the Virginia, United States of America-based ‘The National Association of Corporate Directors (NACD)’⁷⁷. “The National Association of Corporate Directors (NACD) empowers more than 19,000 directors to lead with confidence in the boardroom. As the recognized authority on leading boardroom practices, NACD helps boards strengthen investor trust and public confidence by ensuring that today’s directors are well prepared for tomorrow’s challenges” (National Association of Corporate Directors, 2018, www.nacdonline.org). The current Chairperson of the National Association of Corporate Directors (NACD) Board of Directors is Karen Horn while the current Vice Chairperson is William McCracken and the current CEO is Peter Gleason. Some of the board of directors of the

⁷⁶ Human Resources Institute of New Zealand (HRINZ) (2018) *About HRINZ*. Available from: <https://www.hrinz.org.nz/Site/About/>

⁷⁷ National Association of Corporate Directors (NACD) (2018) *About*. Available from: https://www.nacdonline.org/about/press_detail.cfm?itemnumber=62216

board include: Sue Cole; the Honorable Cari M. Dominguez; Nicholas Donofrio; Brenda Gaines; Raymond Gilmartin and M. Christian Mitchell⁷⁸ (National Association of Corporate Directors, 2018, www.nacdonline.org). According to the National Association of Corporate Directors (2018) expectations of corporate directors have increased significantly in recent years and will continue to evolve as state and federal legislatures and regulators focus more attention on the governance of the nonprofit sector. This enhanced focus has brought increased scrutiny of individual director qualifications, executive compensation, leadership structures and the board's ability to assess risk. The National Association of Corporate Directors (NACD) has had an active board for many years, and in 1998 it adopted its initial board governance guidelines. As a leader in providing advice on corporate governance to directors, boards and management, NACD's goal is to serve as a model of good corporate governance⁷⁹ (National Association of Corporate Directors, 2018, www.nacdonline.org).

1.9.2.6 Institute of Directors (IoD)

One of the leading nonprofit making institutes that has good-to-great business leaders as board members is 'The Institute of Directors' (IoD) which is based in the United Kingdom. "The Institute of Directors (IoD) was founded in 1903 and within three years we were awarded a Royal Charter to support, represent and set standards for business leaders nationwide. We remain deeply proud of our Royal Charter and it stays at the forefront of everything we do as an organisation"⁸⁰ (Institute of Directors, 2018, www.iod.com/). "The board is responsible for the overall leadership of the Institute and setting its values, standard, aims and objectives and delivering them in line with the Charter Objects. The board is composed of the chair of the institute, a majority of non-executive directors, and the director general and executive directors"⁸¹ (Institute of Directors, 2018, www.iod.com).⁸²The current Chair of the Institute of

⁷⁸ National Association of Corporate Directors (2018) *Board of Directors*. Available from:

<https://www.nacdonline.org/about/directors.cfm>

⁷⁹ National Association of Corporate Directors (NACD) (2018) *Corporate Governance*. Available from: Available from: <https://www.nacdonline.org/about/content.cfm?itemnumber=49125>

⁸⁰ Institute of Directors (2018) *About*. Available from: <https://www.iod.com/about>

⁸¹ Institute of Directors (2018) *Our Governance*. Available from: <https://www.iod.com/about/our-governance>

⁸² Institute of Directors (2018) *Board Members*. Available from: <https://www.iod.com/about/our-governance/board-members>

Directors is Charlotte Valeur who was appointed Chair of the Institute in September 2018. As Chair, Charlotte is responsible for championing the IoD's values, promoting its Objects and providing leadership to the Institute, ensuring it delivers maximum impact for its members and stakeholders. Some of the non-executive board of directors of the Institute of Directors include: (1) Deborah Davis who is a Fellow of the Institute of Directors, (2) Suzy Walton who was appointed on the Board of the IoD in December 2013. She is the Chairman of the Accreditation and Standards Committee of the IoD, (3) Stephen Martin who is the current Director General (Executive Director). "He believes his mission at the IoD is to make sure the Institute develops, supports and represents directors not just to ensure the success of the companies they lead, but to the benefit of the economy and country as a whole. Before joining the IoD in 2017 he worked for a series of construction and engineering firms" (Institute of Directors, 2018, www.iod.com), (4) Louise Gulliver (Executive Director) is the current Managing Director Professional Development and Membership. As Managing Director for Professional Development and Membership at the IoD, Louise is responsible for the IoD's board-level training programmes with courses ranging from leadership and governance, to strategy and finance, (5) Jim Jordan is the current Finance Director (Executive Director) at the IoD. Jim was appointed to the Board in March 2017 (Institute of Directors, 2018, www.iod.com).

1.9.2.7 Governance Professionals of Canada (GPC Canada)

A typical good example of a non-profit making organization that has excellent leadership as a result of its staff and board of directors is 'The Governance Professionals of Canada' (*GPC Canada*). "The Governance Professionals of Canada (GPC) was created in 1994, shortly after the Dey Report was published by the TSX on 'Where Are the Directors'. GPC's mandate is to be the voice of governance professionals in Canada. Its members deal with all matters affecting corporate governance, from board and committee processes, management and structure, disclosure, stakeholder engagement, legal and corporate compliance, as well as issues crucial to boards, their accountability and oversight. As such, GPC strives to provide valuable and timely information on recent changes and developments which affect our members – in all industries and sectors (listed, private, public, crown, not for profit, etc)"⁸³ (Governance Professionals of

⁸³ Governance Professionals of Canada (2018) *Welcome to GPC*. Available from: <https://www.gpcanada.org>

Canada, 2018, <https://www.gpcanada.org>).⁸⁴The current President of GPC Canada is Lynn Beauregard. According to the Governance Professionals of Canada (2018) the board of directors of the Governance Professionals of Canada (Board) has the oversight responsibilities and duties described below. An individual director (Director) has the responsibility and specific duties prescribed in the GPC Director Mandate. *Composition:* The Board will be comprised of between five (5) and fifteen (15) Directors, as annually determined by the Board. The Board will use its best efforts to find at least one suitable nominee from each of the four major membership locations: British Columbia, Alberta, Ontario and Quebec. The Board will use its best efforts to ensure that the Board is comprised of Directors who collectively have the skills and abilities necessary to fulfil the duties of the Board and can ensure the Board is capable of meeting its responsibilities to the GPC membership and other stakeholders. Except as may be provided for in the by-laws, Directors will be elected at the annual meeting of members each year and will serve until their successors are duly appointed or elected. *Responsibility and Accountability.* The Board is responsible for:

- I. the stewardship of the GPC, providing effective leadership to the management of the business and affairs of GPC
- II. to provide its membership with access to education, knowledge, tools and opportunities to develop the skills and expertise in their roles as corporate secretaries and/or in the practice of corporate governance principles required under the guidelines and legislation in Canada. The Board is accountable to the membership of the GPC (Governance Professionals of Canada, 2013, <https://gpcanada.org/page-130270>). The conclusion of this chapter will be discussed in the following section.

1.10 Conclusion

The term board of directors has been clearly defined by various academics researchers and it refers to individuals who regularly hold meetings to discuss about the various business related topics affecting the organization and its overall performance. The main benefit of directors in an

⁸⁴ Governance Professionals of Canada (2013) *GPC Board Mandate*. Available from: <https://gpcanada.org/page-130270>

organization is that they help to assess the performance of the organization as a result of their high work experience and in-depth knowledge in various career fields. Another benefit of directors to the organization is that they help the organization to comply with Company law while carrying out strategic planning. Some of the types of board of directors highlighted in this book include: inside and outside directors, de facto directors, independent directors, nominee directors, executive directors and shadow directors. It can be concluded that some of the characteristics of an effective board of director include: (1) they have a strategic perception, (2) they have an effective decision-making capability, (3) they have effective coordination skills and lastly (4) they have effective business acumen.

1.11 Review questions

- 1) Discuss in detail the history of a board of director? Define the term board of director?
- (2) Identify the five advantages of board of directors to an organization? Discuss the different types of directors that can be found in an organization nowadays and please give relevant examples?
- (3) Outline the common characteristics of a board of director?
- (4) Explain the role that is played by board of directors in strategic planning.

Chapter 2: Roles and responsibilities of the board of directors

After reading this chapter you should be able to:

- Identify the different roles or job titles that are found in a board. Describe the two types of boards. Explain the recruitment process of the board of directors.
- Discuss the job description of a chairperson. Describe the job descriptions of a secretary and an executive director of the board.
- Outline the requirements or person characteristics of a board chairman & an executive director.
- Describe in detail what takes place in a board meeting and explain the meaning of the term minutes of a meeting.

2.1 Introduction

“Under state statutory and common law, officers and board members are fiduciaries and must act in accordance with the fiduciary duties of care, loyalty, and obedience. A fiduciary is someone who has special responsibilities in connection with the administration, investment, monitoring, and distribution of property—meaning, the charitable or public assets of the institution, as well as intangible assets such as its reputation and role in the community. Good governance practice mandates that all board members be informed of the legal meaning and obligations of their fiduciary role and provided practical examples of issues that the board is likely to face and that require careful attention to the balancing of interests necessary to carry out the fiduciary role”⁸⁵ (Association of Governing Boards of Universities and Colleges, 2018, www.agb.org/). “The board also has ultimate responsibility for the finances of the organisation and holds legal responsibility for its ventures and actions. The board’s main contact with the organisation is through the chief executive officer (CEO) or equivalent and it is responsible for

⁸⁵ Association of Governing Boards of Universities and Colleges (2018) *Fiduciary Duties*. Available from: <https://www.agb.org/briefs/fiduciary-duties>

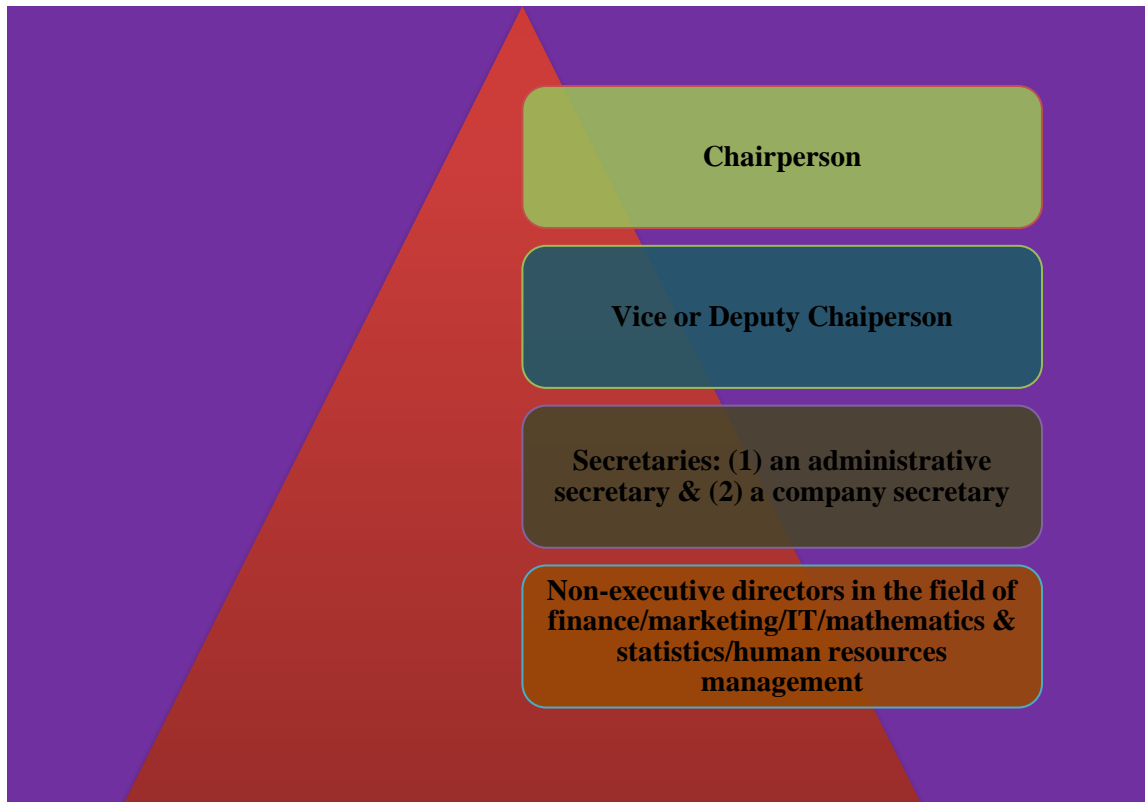
appointing and managing this individual”⁸⁶ (Better Boards Australasia, 2018, <https://betterboards.net/>). There are different types of boards in general and these will be covered in the following section.

2.2 Roles or titles found in a board

There are many titles that are found in a board and these vary based on whether the organization is a profit-making or non-profit making organization. In addition the size and type of the organization also has a significant influence on the different types of board member titles’ it is likely to have. As mentioned earlier in Chapter 1 under the sub-heading ‘types of directors’ all the listed types of directors are some of the common job titles that are found in a board of an organization. Some of the additional job titles that are found in a board are depicted in Figure 2.1 below.

⁸⁶ Better Boards Australasia (2018) *What is a Board*. Available from: <https://betterboards.net/non-profit-fact-sheets/what-is-a-board/>

Figure 2.1 Job titles that are found in a board



Source: Modified: (The Directors Academy, 2019; Australian Institute of Company Directors, 2016:1).

2.2.1 Chairperson

In general the United Kingdom Articles of Association clearly highlights the election of a chairman who will lead the board of directors in an organization. In addition in the United Kingdom the articles of association grants the directors of an organization power to appoint a chairman of their own number to occupy the position for a specific term limit and the directors formally decide the term limit they deem suitable for the chairman position. While on the other hand if the election of a chairman does not take place or the individual who has been elected to occupy the position of a chairman is absent within five minutes of the fixed time of the meeting or is not interested in filling-in the chairmanship position the directors who are present in the meeting may end up electing one of their number to occupy the chairman position during the meeting—(Richard Winfield, *The New Directors Handbook*, Brefi Press, 2015 cited in *The*

Directors Academy, 2019). “*Role of the chairman*. The chairman's role includes managing the board's business and acting as its facilitator and guide. This can include:

- Determining board composition and organisation;
- Clarifying board and management responsibilities;
- Planning and managing board and board committee meetings;
- Developing the effectiveness of the board” (Richard Winfield, *The New Directors Handbook*, Brefi Press, 2015 cited in The Directors Academy, 2019). It is important to point-out the fact that there is a great difference between the role of being a board of director and a manager in an organization and this is clearly highlighted by the list of duties they must perform on the job (The Directors Academy, 2019).

2.2.2 Vice-chairperson

Similar to the role of the chairperson the role of a vice-chairperson is also elected in line with corporate governance rules of the organization. A vice-chairperson is also referred to as the deputy chairperson. When the chairperson of the board is absent the deputy chairperson takes over their leadership duties in running the affairs of the organization and the board until they return to work while on the other hand if the chairperson leaves the organization permanently quite often the deputy chairperson is automatically appointed to take over the chairmanship position based on the governance rules of the board.

2.2.3 Secretaries

There are two types of secretaries (1) an administration secretary (2) company secretary (*legal compliance*). Secretaries play a vital role in the day-to-day management of the affairs of the board. An administration secretary is in charge of ensuring that the minutes of the board meeting are recorded accurately and clearly and they are distributed regularly to board members, the venue is well equipped, relevant documents are emailed to board members on-time before the next board meeting, refreshments or food arrangements are made on-time and so on. While on the other hand a company secretary is responsible for ensuring that the board is in compliance

with corporate governance laws of the country on a continuous basis. The company secretary ensures that all the promises and obligations that were made by the organization's board are fulfilled and all legal contracts are discussed in detail in board meetings and signed for approval. A company secretary helps the board to uphold its ethics and legal compliance. ⁸⁷“The importance of the company secretary's role has increased over the years. No longer the person who merely keeps the minutes of the board and handles board correspondence, the company secretary role can now include administering the affairs of the company and managing/supporting the business of the board. The corporate collapses of the late 1990s and early 2000s resulted in an increased shareholder focus on corporate governance and transparency. Some could say that this focus has emphasized the company secretary's role in assisting with and supporting the governing and monitoring role of the board within their organisations. As the responsibilities of the board have increased, the volume of work and necessary skills to support the board have added to the role of the company secretary. Depending on the size and resources of a company, the company secretary can be considered the chief governance specialist within an organisation, and it is a role which is increasingly relied upon by the board to provide advice and implement good governance practices. This chief governance specialist role is a more proactive role than in previous times. Company secretaries have legal responsibilities in addition to their work in support of the board, which will vary according to the specific needs of the organization” ⁸⁸(Australian Institute of Company Directors, 2016:1, <https://aicd.companydirectors.com.au/>).

⁸⁷ Australian Institute of Company Directors, 2016, *Duties of directors: Role of the company secretary*, Director Tools, Sydney, <http://aicd.companydirectors.com.au/resources/director-tools/practical-tools-for-directors>, (accessed 4 Dec 2018).

⁸⁸ Australian Institute of Company Directors, 2017, *Duties of directors: Role of the company secretary*, Director Tools, Sydney, <https://aicd.companydirectors.com.au/resources/director-tools/practical-tools-for-directors/duties-of-directors/role-of-the-company-secretary>, (accessed 4 Dec 2018).

2.2.4 Non-executive directors in the field of finance/marketing/IT/mathematics & statistics/human resources management/supply chain management

A non-executive director is a board member who is not involved in the handling of the daily operational management duties of the organization and they are usually experts in a certain career field. The appointment of specialist non-executive directors is usually done in direct alignment with the organization's currently existing functional departments. Thus a board can be made up of Non-executive directors with expert knowledge in various career fields such as finance, marketing, information technology (IT), mathematics & statistics, human resources management, operations management & supply chain, research & development, science & innovation, engineering, corporate & labor law, media & corporate communications and so on. Most of the leading global organizations have large boards since it helps them to appoint a large number of experts in different career fields as they later on help the organization to successfully satisfy its customers' needs and wants at a profit whilst simultaneously increasing shareholder value, innovation rates and market share. The following section will cover the different types of boards.

2.3 Two types of boards

In general there are two types of boards and these are depicted by Figure 2.2 below.

Figure 2.2 Two types of boards



As depicted by Figure 2.2 the two types of boards include: (1) a profit-making board and (2) a non-profit-making board. The roles and responsibilities of a profit making board will be discussed in this chapter and in the next section.

2.3.1 Fiduciary duties of profit-making boards

A profit making board focuses on increasing shareholder, market and brand value of the organization by devising effective long term strategies, policies, external partnerships and so on. The fiduciary duties of a profit-making board are many and seven of the main duties of a board were highlighted by the Switzerland-based International Centre for Corporate Governance. (International Centre for Corporate Governance, 2018, www.icfcg.org/). The seven main duties of a board are highlighted in Figure 2.3 below.

Figure 2.3 Seven main duties of a board in a profit-making organization identified by ICFCG



Source: Modified (International Centre for Corporate Governance, 2018, www.icfcg.org/)

⁸⁹According to the International Centre for Corporate Governance (2018, www.icfcg.org/) *the checklist for the fulfillment of the duties of the board of directors:*

⁸⁹ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

2.3.1.1 Management of the Company

- Set a corporate strategy in accordance with the vision and mission of the company, its statutes, if possible, set the strategy that is aligned with the owner's strategy.
- Analyse strengths, weaknesses, opportunities and threats that concern the company (*SWOT Analysis*) keeping in mind company's strategy.
- Select the means and the resources that are needed to implement the corporate strategy, adhering to the specifications set out in a business plan.
- Issue instructions to management in order to implement the business strategy and execute the business plan.
- Ensure that every business activity is in line with the legal, regulatory and statutory provisions (*compliance*).
- Determine personnel policies including policies for dealing with unions and undertake measures that prevent discrimination and sexual harassment.
- Obtain all necessary regulatory approvals needed to undertake and pursue business activities. Develop a Risk Management Policy by ensuring that there is a systematic collection and analysis of all relevant risks and set up preventative measures.
- In case of subsidiaries, set requirements concerning the management of the group, in particular make permissible references to the group structure (*group liabilities*).
- Develop an Intellectual Property Strategy, ensuring that all relevant intellectual property is protected, specifying in which form and in which countries the IP is protected.
- Set up Communications Strategy that covers both internal and external communication, and if possible include regulations on social media and include monitoring measures.
- Specify the Principles of Contract Management including provisions on prevention of excessive risk-taking through guarantees and penalties.

- Make decisions upon conclusion of the important agreements such as exclusive distribution, agency agreements, licensing agreements or construction law contracts.
- Ensure the necessary protection of all intellectual property, in particular, company name, domain names, brand names, trademarks, designs and patents held by the company.
- Hold meetings of the board in accordance with the management calendar in order to lead and control the company and, if there are deviations from the set goals, intervene.
- At least once per year critically discuss an up-to-date Master Risks List that should include large risks and planned measures to minimize these.
- Review, at least once per year, the company's insurance situation and ensure that the insurance coverage is complete and appropriate⁹⁰ (International Centre for Corporate Governance, 2018, www.icfcg.org/).

2.3.1.2 “Company organisation

- Decide upon composition of a Board and appoint a chairperson, a vice chairperson and a board secretary.
- Establish a remuneration policy that sets compensation for duties and responsibilities carried out by members of the board and includes provisions for compensation for additional functions performed by members and other expenses.
- Delegate the executive management functions to a member of the board and create a corresponding job description.
- Approve the organisational structure of the company and develop a corresponding organisational chart.
- Appoint a chief (*risk*) security officer and determine his/her tasks and responsibilities in the job description.

⁹⁰ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

- Establish Organisational Regulations that clarify tasks, competencies and responsibilities within the company.
- Determine the functional diagram delineating organisational and operational level responsibilities within the company.
- Adopt all necessary regulations and directives that ensure that the company's operations are being carried out in accordance with the business plan.
- Decide upon the required management tools (*MIS concept*) that enable adequate and timely provision of information to the board of directors.
- Determine who has the Authority to Sign and, if necessary, develop an internal Signing Authority Directive.
- Set up an Employee Compensation Policy and include provisions that enable annual reviews.
- Ensure that the entries in the commercial register are complete and accurate.
- In case of registered shares, update and control share registers clarifying which shares have been physically issued.
- In case of registered shares, as required, approve the transfer of shares after taking into account any statutory restrictions on transferability.
- Ensure that minutes of the board meetings are complete and accurate and the original minutes are kept for up to 10 years⁹¹ (International Centre for Corporate Governance, 2018, www.icfcg.org/).

2.3.1.3 “Financial management of the company

- Issue directives to the used accounting principles, including the design of the financial statements. Carry out a periodic revision of the long-term financial plans in accordance with the business plan.

⁹¹ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

- Set the budget on an annual basis, including the investment budget, which can be used as a basis for planning or to check for deviations from planned targets.
- Set up a cash pooling system in the group and make necessary safeguards for the subsidiaries under Cash Pool Regulations.
- Develop Investment Regulations in order to ensure the risk-conscious and sustainable investment of assets, especially in cases of excess liquidity⁹²
- Determine the financial institutions with which the company works with, such as banks and leasing companies.
- Decide upon the approved pension scheme (pension fund) and ensure that provisions cover all company employees.
- Monitor the debt-to-equity ratio or the ratio between equity capital and borrowings (*loan capital*) is adequate (*self-financing*).
- Review current liquidity and future liquidity requirements on a monthly basis (*12- month rolling liquidity plan*).
- Ensure that financial statements include all necessary provisions for taxes, bad debts, litigations and warranties.
- The adoption of the annual financial statements with full disclosure of contingent liabilities for the Annual General Meeting.
- Permanent monitoring to ensure that the national insurance and tax are properly payable if booked and paid.
- Ensure lawful and independent audit of the annual financial statements, including consolidated financial statements, unless a legal opt-out is selected.

⁹² International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

- Request auditors to specifically review areas which were not checked in the previous year (*Audit Plan*).
- Monitor any possible loans, even if they were approved by the Board”⁹³ (International Centre for Corporate Governance, 2018, www.icfcg.org/).

2.3.1.4 “Appointment, Monitoring and Dismissal of Management

- Recruit, select and appoint members of management in accordance with the organisational chart.
- Determine the compensation of the executive management including expenses and profit sharing regulations.
- Decide upon conclusion, modification and termination of labor contracts including job descriptions of the executive management.
- Set annual goals for the executive management including requirements for personal and professional development / training.
- Carry out the assessment of all members of the executive management against established criteria on the annual basis and set up improvement measures.
- Take all the necessary measures in case of irregularities or offenses by the management (*special audit or complaint*).
- Ensure that the company engages in a succession planning of management including the arrangement of deputies in case of last minute changes or losses.
- Monitor labor disputes and ensure that all unnecessary litigation is avoided” (International Centre for Corporate Governance, 2018, www.icfcg.org/).

⁹³ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

2.3.1.5 “Preparation of the Business Reports and the AGM

- Hold editorial responsibility for the formulation of the annual report, consisting of financial statements, annual report and consolidated financial statements.
- Decide whether to publish an annual report, in particular, on the Internet or on how to distribute printed copies.
- Provide information on risk assessment in the notes to the financial statements, in particular, the organisation of risk management and risk policy⁹⁴.
- Set the date and place of the General Assembly and notify shareholders or other special invitees. Prepare financial statements, such as the balance sheet, income statement and include notes in the profit distribution statement.
- Determine the agenda and include the proposals of the Board and proposals of shareholders.
- Review the independence of the auditors and ensure the fees paid to the auditor are done in accordance with the Election of the Auditor Proposal.
- Ensure that invitations, along with all the related documents are prepared,
- Ensure that invitations, along with all the related documents, are sent out no later than the 20 day statutory requirement or even earlier.
- Invite auditors and group auditors as well as a notary public in case of changes to the statutes or company liquidation.
- Provide the documents, which must be available by law for inspection at the companies’ registered offices (*at least an annual report and an audit report*)” (International Centre for Corporate Governance, 2018, www.icfcg.org/).

⁹⁴ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

2.3.1.6 “Implementation and enforcement of its resolutions of AGM

- Participate in the AGM, be able to act as the chair, and comply with the obligation to provide information to shareholders.
- Guarantee that only authorized persons have access to the AGM in case of objections from shareholders.
- Ensure that votes are correctly counted and that there are provisions for a secret ballot voting. Maintain complete and correct minutes of the General Meeting and ensure that originals of minutes are kept for up to 10 years”⁹⁵ (International Centre for Corporate Governance, 2018, www.icfcg.org/).

2.3.1.7 “Appeals and Court Notifications

- Challenge the decisions of GM when these contradict legal, regulatory or statutory requirements. Request an interim audit to be carried out in case of a legitimate concern over indebtedness.
- Convene a GM, if over indebtedness it must be imminent or is determined and request remedial measures to be undertaken.
- Notify the court in case of failed remedial measures or over indebtedness and provide respective balance sheets” (International Centre for Corporate Governance, 2018, www.icfcg.org/). The next section will cover aspects related to the recruitment of the board of directors.

2.4 Recruitment of the board of directors

One of the key roles played by an organization’s board is the hiring of new board members on a regular basis. In terms of the codes of good corporate board governance an organization’s board members are in charge of the board of directors’ recruitment process and they are required to uphold the fiduciary duties of care, loyalty, and obedience in order for them to make careful,

⁹⁵ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

good-faith decisions that are in the best interest of the organization and its stakeholders⁹⁶ (Legon, 2014. www.agb.org/). “Well-governed organisations are a joy to work for, buy from, and supply to. That’s because well-governed organisations are those that have a clear vision, a positive culture, agreed targets and expectations, great customer relations and stakeholder involvement and robust policies and procedures. *Get the right people*. Getting the right people on your board is the first step to good governance. The only way to know you’re getting the best person for the job is to follow proper recruitment processes”⁹⁷ (Leading Governance, 2013, www.leadinggovernance.com). ⁹⁸According to the Australian Institute of Company Directors (2018:3) *Getting the right skills on the board*. Boards need to have a broad mix of skills, knowledge and experience. Different directors have different skills and backgrounds. The goal in selecting board members is to build a mix that can work as a well-rounded team of people each with an appropriate range of experience, skills and attributes relevant to the purpose, needs and strategies of the organisation. In selecting a new board member, the board should consider the skills, knowledge, attributes and experience needed to govern the organisation both now and in the future. It is important to select board members who have sufficient broad experience in the issues and opportunities the organisation is facing now or is likely to face in the future. While specific skills required by each board differ, there are some core skills that should be represented on a board as a whole (not necessarily in one person). These include:

- *Strategic expertise* – the ability to set and review strategy through constructive planning, questioning and suggestion;

⁹⁶ Legon, R. (2014) *The 10 Habits of Highly Effective Boards*. Available from: <https://www.agb.org/trusteeship/2014/3/10-habits-highly-effective-boards#>

⁹⁷ Leading Governance (2013) *Embedding Good Governance in Organizational Culture - a Journey, Not a Destination*. Available from: <https://www.leadinggovernance.com/blog/embedding-good-governance-organisational-culture-journey-not-destination>

⁹⁸ Australian Institute of Company Directors, 2016, *Governance relations: Role of the board*, Director Tools, Sydney, <http://aicd.companymdirectors.com.au/resources/director-tools/practical-tools-for-directors>, (accessed 4 Dec 2018).

- *Accounting/Financial literacy* – the ability to read and comprehend the accounts and the financial material presented to the board, in addition to understanding financial reporting requirements;
- *Legal skill* – the ability to understand and oversee compliance with numerous laws;
- *Managing risk* – experience in risk management and mitigation principles;
- *Human resource skills* – experience in human resource management;
- *Marketing and communications* – experience in media and marketing;
- *Industry knowledge* – experience in similar organisations or industries;
- *Information technology* – there is a growing need for directors with an understanding of information and communication technology;
- *Capital markets experience* – experience in capital raising and mergers and acquisitions⁹⁹ (Australian Institute of Company Directors, 2018:3).

A general guideline on how the board can implement the duties of care, loyalty and obedience is by developing and implementing a continuous recruitment program of talented prospective board candidates. According to Legon (2014, www.agb.org/) implement a year-round director-recruitment program in which a pool of prospective candidates is developed and vetted, and in which candidates have an opportunity to learn more about the institution¹⁰⁰ (Legon, 2014, www.agb.org/). “*Select an effective board chair*. Board chairs are selected for a variety of reasons: stature, trust, leadership skills, external connections, length of service, gubernatorial influence, personal philanthropy, and others. But such criteria may not be what’s needed in this

⁹⁹ Australian Institute of Company Directors, 2016, *Governance relations: Role of the board*, Director Tools, Sydney, <http://aicd.companydirectors.com.au/resources/director-tools/practical-tools-for-directors>, (accessed 4 Dec 2018).

¹⁰⁰ Legon, R. (2014) *The 10 Habits of Highly Effective Boards*. Available from: <https://www.agb.org/trusteeship/2014/3/10-habits-highly-effective-boards#>

era of constant change. A high-performing board requires a leader who can support and facilitate a model of strategic governance, develop an essential and candid relationship with the chief executive officer, have the respect of his or her board colleagues, understand and respect academic culture, and ensure that the full board is focused on issues that matter. The board chair and president must have a relationship that allows for candor yet is also mutually supportive. The specific traits of a board chair of a highly effective board include:

- A sense of partnership with the chief executive;
- Experience in leading voluntary boards of complex organizations;
- An understanding of the challenges and opportunities facing the institution;
- A willingness to focus the board and its members on issues that matter rather than those that are neither the province of the board nor necessarily the most important strategic challenges;
- A familiarity with the interests of the institution's internal and external stakeholders, and the ability to represent the board to those groups; and
- A readiness to be the voice of the board as both an advocate and a storyteller to key external constituents, in coordination with institutional leadership”¹⁰¹ (Legon, 2014. www.agb.org/).

¹⁰² “*The board's role in selecting a CEO.* One of the most crucial roles of the board is to select the CEO for the organisation. As the leader of the management team, the value of the CEO to the organisation cannot be underestimated. The board and CEO should aim to work in close co-operation with one another. CEO succession planning is an important aspect of the board's role. The needs of an organisation will change over time and a CEO who is an excellent appointment today and in the short term may not be the best person for the longer term. For example, an

¹⁰¹ Legon, R. (2014) *The 10 Habits of Highly Effective Boards*. Available from:

<https://www.agb.org/trusteeship/2014/3/10-habits-highly-effective-boards#>

¹⁰² Australian Institute of Company Directors, 2016, *Governance relations: Role of the board*, Director Tools, Sydney, <http://aicd.companymen.com.au/resources/director-tools/practical-tools-for-directors>, (accessed 4 Dec 2018).

organisation undergoing a period of major change can benefit from a CEO with skills and experience in this area but may respond better to a CEO with a different skill set when the period of major change is over and the circumstances are more settled”¹⁰³ (Australian Institute of Company Directors, 2016:4). The contents of a job description of chairperson will be covered in the following section.

2.5 Job description of a chairperson

A *job description* refers to a drafted list of the roles and responsibilities of a job position in an organization. It is usually prepared by the immediate supervisor, co-workers and the human resources manager. While on the other hand a *job specification* lists the person characteristics the job holder of a job position must possess in order for them to competently perform on-the-vacant job¹⁰⁴ (Hunter, 2002:73). A job description and a person specification are used to advertise an open job vacancy in an organization so that suitably qualified job applicants can submit their applications to the organization. Job descriptions are drafted for every job position that is vacant in the organization including board positions. Job descriptions differ according to the size and type of organization and they are also influenced by the job grade of the vacant job position as well. A chairperson’s job description differs according to the size and type of organization as well.¹⁰⁵ According to the International Centre for Corporate Governance (2018, www.icfcg.org/) the job description of the chairman:

¹⁰³ Australian Institute of Company Directors, 2016, *Role of the board: Governance relations*, Director Tools, https://aicd.companydirectors.com.au/-/media/cd2/resources/director-resources/director-tools/pdf/05446-3-11-mem-director-gr-role-of-board_a4-v3.ashx, (accessed 4 Dec 2018).

¹⁰⁴ Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management*. Pietermaritzburg: Bytes Document Solutions.

¹⁰⁵ International Centre for Corporate Governance (2018) *Job Description of Chairman*. Available from: <https://www.icfcg.org/best-practice/32-job-description-chairman.pdf>

Table 2.1 Job description of a chairman

JOB DESCRIPTION Chairman of the Board of Muster AG
1. Job title: Chairman of the board
2. Main duties: - Formal leadership of the board of directors - Acquires information and informs the board - Ensures that the board works as a team and that it fulfills its duties - Represents the company and the board of the directors externally
3. Job title of the immediate supervisor: - Board of directors
4. Job titles of the immediate subordinates: - Members of the EM (in the capacity as representative of the whole board) - Board Secretary - Internal Auditor The job holder will represent: The interests of the company in the board of directors and to shareholders
5. The job holder will represent: The interests of the company in the board of directors and to shareholders
6. In case of absence, the job holder will be acted for by: Vice chairman of the board of directors
7. Special powers / responsibilities: - Joint dual signing authority - Investment decisions according to Allocation of Authority diagram - Confirms with his or her signature the completeness and accuracy of the BoD and AGM minutes - Responsibility for the implementation of board resolutions and decisions

- Responsible for ensuring that the board, when carrying out its duties, complies with legal, statutory and regulatory requirements
- Ensures the proper functioning of the board of directors

8. Responsibilities:

- Convening of the board, setting the agenda and delivery of material documents
- Signing of employment contracts, issuing of references and dismissal of members of the EM
- Supervision regarding the implementation of decisions on pay and qualifications systems in accordance with the Allocation of Authority diagram
- Timely invitation to the AGM and the proper running of the AGM
- Conducting the BoD meetings
- Monitoring the execution of the AGM resolutions
- Annual evaluation of the board of directors
- Responsibility for training and the continuous education of the BoD members
- Responsibility for proper composition and efficient work of the committees
- Control and proper management of the share register
- Granting of authority to sign
- Ensures that all necessary information is forwarded to the members of the BoD
- Approval of requests for information, inspection and right to access information (if not already provided for in the articles of incorporation)
- In case of a tie, the chairman has the deciding vote
- Final editing and signing of all regulations at board level
- Checking and signing of the BoD and AGM minutes
- Playing the mediation role if disagreements occur within the EM
- Leadership and decision-making in crisis situations
- Making decisions about special meetings and telephone conferences
- Signing of registration and changes in the commercial register
- Consideration of the owners' strategy in the formulation and implementation of strategic directives of the board of directors
- Responsible for the election of a vice chairman and ensuring that he or she is ready to take on the duties of the chairman at any time

- Setting of the objectives for the EM and Remuneration Committee
- Responsible for the training and continuous education of the board of directors
- Leads and improves the skills of his/her immediate subordinates
- Annual reporting to auditors regarding any current litigation

9. Requirements:

Personal Competencies

- Integrity
- Loyalty
- Charisma
- Independence
- Authority
- Commitment
- Assertiveness and resilience
- Service orientation
- Customer focus
- Resilience
- Initiative

Social Competencies

- Team work
- Capacity to integrate well
- Communication skills
- Ability to motivate others
- Negotiation skills

Leadership competencies

- Leadership experience
- Leadership skills
- Strong skills in conflict management
- Assertiveness and leadership
- Decisiveness

Conceptual skills

- Entrepreneurial thinking and action
- Analytical skills
- Strategist

Professional competencies

- Knowledge and experience of management principles, cycles and processes
- Industry knowledge
- Knowledge of English and French

Other

- No personal or contractual relationships with competitors
- Reputation, Credibility

Source: International Centre for Corporate Governance (2018, <https://www.icfcg.org/board-tools/job-description-chairman.pdf>).

There are several job descriptions of a secretary of a board and this will be discussed in-depth in the following section.

2.6 Job description of the secretary of the board

A secretary of the board plays a vital role in the success of the organization. ¹⁰⁶According to International Centre for Corporate Governance (2018, www.icfcg.org/) the job description of the secretary of the board:

Table 2.2 Job description of the secretary of the board

JOB DESCRIPTION Board Secretary of the Muster AG
1. Job title: Secretary of the board of directors
2. Main duties:

¹⁰⁶ International Centre for Corporate Governance (2018) *Job Description of the Secretary of the Board*. Available from: <https://www.icfcg.org/board-tools/job-description-of-the-secretary-of-the-board.pdf>

<ul style="list-style-type: none"> - Leadership of the BoD office of the Muster AG - Support the chairman of the board regarding BoD meetings and the AGM - Responsibility for formal compliance with laws, articles of incorporation and regulations
<p>3. Job title of the immediate supervisor:</p> <p>Chairman of the board of directors of Muster AG</p>
<p>4. Job title of direct subordinates:</p> <p>There are no direct reporting lines or subordinate employees to the Board Secretary</p>
<p>5. The job holder will represent:</p> <p>The job holder is substituting only by mutual consent</p>
<p>6. The job holder will be represented by:</p> <p>A member of the Executive Management in accordance with ad hoc designation by the chairman of the BoD</p>
<p>7. Special powers / responsibilities:</p> <ul style="list-style-type: none"> - The post holder will be registered in the commercial registry without authority to sign - The job holder is responsible for completeness and accuracy of the minutes drawn up by him/her in the board meetings, committee meetings and AGMs - The job holder is responsible for the completeness and accuracy of entries in the relevant commercial register - The job holder has the right of access and can inspect all company records and documents in preparation for a board meeting as part of his/her job duties.
<p>8. Responsibilities:</p> <ul style="list-style-type: none"> - Provide a service to all members of the board in connection to their roles as directors. - Support the chairman in all aspects of his/her job - Compilation and management of company files (articles of incorporation, regulations, share register, minutes, monthly reports and annual report, etc.) - Compilation and periodic update of a meetings folder for board meetings, containing all the necessary documents enabling members of the board to effectively carry out their duties - Assist with the preparation and amendment of organizational regulations, allocation of authority document, corporate governance and risk management guidelines - Preparation of invitations to board meetings and the AGM, in consultation with the chairman of the board

- Timely delivery of the necessary documents for board meetings and the AGM
- Reservation and organization of premises, technical facilities for board meetings, the AGM and other meetings in consultation with the chairman
- Taking minutes at board meetings, the AGM and other meetings on the request of the chairman (such as committee meetings, strategy meetings, etc.) and delivery of final minutes within 14 days to all individuals on the distribution list
- Create and update the pending items/open issues list for the board of directors and the executive management
- Application for registration of changes and deletions in the commercial register
- Assist in the design and content of the annual report, particularly in the areas on corporate governance and compliance
- Informing members of the board on any changes in legislation or law, as necessary and helpful for the board's ability to exercise their duties
- Assist in the set up and support of legal management (drafting of contracts, review of contracts, terms and conditions) to the extent required by the board of directors
- Verification of selection, involvement and operation of external lawyers
- Legal advice and support in areas of corporate law, employment law, contract law and intellectual property, to the extent required by the board of directors, but at least during board meetings and AGMs
- Annual reporting to auditors on any current litigation

9. Requirements:

- Integrity, loyalty, and discrete personality
- Team work and service orientation
- Self motivated and self starter/initiative
- High degree of availability
- Experience with minute taking and management of the office
- Proficiency in German, English and French
- Knowledge of corporate governance and compliance
- Ability to deal with the necessary technical equipment (laptops, projector, etc.)

10. Special requirements:

- Board secretary agrees, as a lawyer, to handle additional requests from the board as needed and to commit additional time to such tasks. This will be compensated separately
- Secretary of the board is employed on a contract basis, whereby the contract can be terminated at any time without notice
- Secretary of the board will provide a detailed monthly account about hours worked

Source: International Centre for Corporate Governance (2018, <https://www.icfcg.org/board-tools/job-description-chairman.pdf>).

The contents of an executive director’s job description will be discussed in-depth in the following section.

2.7 Job description of an executive director of the board

It is important to point-out the fact that an *executive director* position is for a CEO or Managing Director or President of an organization who is also a board member while a *non-executive director* is a board member who does not perform any day-to-day management duties in the organization. The job description of an executive director varies based on the type and size of the organization. “Too often boards only look at the executive director's job description when they're unhappy with their executive or when they're hiring a new one. If you're writing or rewriting a job description, it may be helpful to have one for comparison”¹⁰⁷ (Masaoka, 2000, www.compasspoint.org/). According to Masaoka (2000, www.compasspoint.org/) job description for executive director:

Table 2.3 Job description for executive director

Executive Director

The Executive Director is the Chief Executive Officer of _____. The Executive Director reports to the Board of Directors, and is responsible for the organization's consistent achievement of its mission and financial objectives. In program development and administration, the Executive Director will:

¹⁰⁷ Masaoka, J. (2000) *Job Description for Executive Director*. Available from: <https://www.compasspoint.org/board-cafe/job-description-executive-director>

Specific committee responsibilities:

1. Assure that the organization has a long-range strategy which achieves its mission, and toward which it makes consistent and timely progress.
2. Provide leadership in developing program, organizational and financial plans with the Board of Directors and staff, and carry out plans and policies authorized by the board.
3. Promote active and broad participation by volunteers in all areas of the organization's work.
4. Maintain official records and documents, and ensure compliance with federal, state and local regulations.
5. Maintain a working knowledge of significant developments and trends in the field.

In communications, the Executive Director will:

1. See that the board is kept fully informed on the condition of the organization and all important factors influencing it.
2. Publicize the activities of the organization, its programs and goals.
3. Establish sound working relationships and cooperative arrangements with community groups and organizations.
4. Represent the programs and point of view of the organization to agencies, organizations, and the general public.

In relation with staff, the Executive Director will:

1. Be responsible for the recruitment, employment, and release of all personnel, both paid staff and volunteers.
2. Ensure that job descriptions are developed, that regular performance evaluations are held, and that sound human resource practices are in place.
3. See that an effective management team, with appropriate provision for succession, is in place.
4. Encourage staff and volunteer development and education, and assist program staff in relating their specialized work to the total program of the organization.

5. Maintain a climate which attracts, keeps, and motivates a diverse staff of top quality people.

In budget and finance, the Executive Director will:

1. Be responsible for developing and maintaining sound financial practices.
2. Work with the staff, Finance Committee, and the board in preparing a budget; see that the organization operates within budget guidelines.
3. Ensure that adequate funds are available to permit the organization to carry out its work.
4. Jointly, with the president and secretary of the board of directors, conduct official correspondence of the organization, and jointly, with designated officers, execute legal documents¹⁰⁸ (Masaoka, 2000, www.compasspoint.org/).

Source: Modified: (Masaoka, 2000, www.compasspoint.org/).

The various person-characteristics a prospective candidate for a board chairperson vacancy must possess to qualify for the job will be covered in the following section.

2.8 Requirements or ‘person characteristics’ of a board ‘chairman’ & an ‘executive director’

The term ‘*requirements*’ refers to the person specification and or the personal characteristics that a prospective board of director or chairperson must possess in order to qualify to become part of an organization’s board. The various requirements that are required for an individual to qualify to be a board chairperson were identified by the Switzerland-based International Centre for Corporate Governance¹⁰⁹ (2018, www.icfcg.org/). These requirements apply to a director who seats in a board. These include:

¹⁰⁸ Masaoka, J. (2000) *Job Description for Executive Director*. Available from:

<https://www.compasspoint.org/board-cafe/job-description-executive-director>

¹⁰⁹ International Centre for Corporate Governance (2018) *Job Description of Chairman*. Available from:

<https://www.icfcg.org/best-practice/32-job-description-chairman.pdf>

2.8.1.1 Personal Competencies

- (1) “Integrity, (2) Loyalty, (3) Charisma, (4) Independence, (5) Authority, (6) Commitment,
- (7) Assertiveness and resilience, (8) Service orientation, (9) Customer focus, (10) Resilience,
- (11) Initiative,

Social Competencies

- (1) Team work, (2) Capacity to integrate well, (3) Communication skills, (4) Ability to motivate, others, (5) Negotiation skills,

2.8.1.2 Leadership competencies

- (1) Leadership experience, (2) Leadership skills, (3) Strong skills in conflict management,
- (4) Assertiveness and leadership, (5) Decisiveness

2.8.1.3 Conceptual skills

- (1) Entrepreneurial thinking and action, (2) Analytical skills, (3) Strategist

2.8.1.4 Professional competencies

- (1) Knowledge and experience of management principles, cycles and processes
- (2) Industry knowledge
- (3) Knowledge of English and French
- (4) Familiarity with finance and accounting principles
- (5) Knowledge of legal and economic context and principles

2.8.15 Other

(1) No personal or contractual relationships with competitors

(2) Reputation, Credibility”¹¹⁰ (International Centre for Corporate Governance, 2018, www.icfcg.org/). The following section will cover an example of a typical board meeting and the recording of minutes.

2.9 A typical board meeting and the recording of minutes

When board meetings are held from time to time in order to allow board members to conduct their duties with skill, diligence and in good faith to effectively manage the organization’s functions, strategy and policy it helps to enable the directors to successfully provide feedback to the board about their specific area of responsibility they are in charge of managing on a day-to-day basis. A chairperson must be present in each and every board meeting in order for him/her to control the proceedings of the meeting and ensure that issues listed on the agenda of the meeting are properly discussed or addressed while allowing all members present with different opinions, ideas or criticism points to effectively point-out their opinions so that the final decision that will be made by the board is comprised of opinions of everyone present in the meeting as a whole. The chairman usually chooses the items to be included on the meeting agenda and may sign-off the minutes of the meeting using their legal power of authority to do so or their power they have only been given by the board. Furthermore, the board as a whole is liable for any action or task conducted by its authority (*such as its chairman*) thus executive authority must only be given to the right individuals while on the other hand the appropriate communication feedback systems must be established in order to uphold total control^{111 112}(Richard Winfield, *The New Directors Handbook*, Brefi Press, 2015 cited in *The Directors Academy*, 2019). According to AVC (2012, <https://avc.com/>) the Board Meeting is the primary way that Boards function. A Board cannot be effective if it doesn't get together frequently. Some Boards meet monthly. I like that approach when the Company is young and there are a lot of changes happening frequently. But for most companies, a monthly Board meeting will be overkill. The idea is to have one meeting mid

¹¹⁰ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

¹¹¹ The Directors Academy (2019) *Roles and Responsibilities of Directors and Boards*. Available from: <https://thedirectorsacademy.com/>

¹¹² Richard Winfield (2015) *The New Directors Handbook*. Brefi Press.

quarter and one meeting after the quarter has been completed. A lot of public companies use this format since the Board needs to review the quarterly numbers before they are reported to the public. Some Boards only meet once a quarter. Board meetings should be discussions. They should be interactive. They should have some structure. But they should not have too much structure. Some CEOs and Board Chairs make the mistake of driving the Board line by line through the agenda, cutting off meaty discussions in the name of staying on schedule. The second technique I like a lot is when the CEO puts up a list of the three or four things that are "keeping me up at night" at the start of each meeting. This can be a way of tying up the discussion items for the meeting. Or it can just be a way for the Board to get into the mind of the CEO quickly. The best way that I've seen this done is the "keeping me up at night" slide shows the items that were on the slide the prior meeting and the items that are on the list currently. That shows what things have been "resolved" in the time since the last meeting, those things that have not been resolved, and the new things that have popped up. Possibly the most important technique I've observed over the years is the executive session at the end of the meeting. This is when the Board meets without the CEO and team in the room and has a discussion of the meeting and what the key takeaways are. The executive session can be five minutes or it can be a half hour. Sometimes there is very little to discuss in executive session. Sometimes there is a lot. After the executive session ends, the CEO should either be invited back to have a debrief on the executive session or the Chairman of the Board should meet with the CEO to debrief on the executive session. This is an opportunity for the Board to provide feedback to the CEO on the business, the team, and performance, and the strategy¹¹³ (AVC, 2012, <https://avc.com/>).

2.9.1 Proper drafting of board meeting minutes

“Whether you’ve been tasked with taking notes for a committee or you’ve been appointed Secretary to the Board of your organization, preparing meeting minutes doesn’t have to be an arduous task”¹¹⁴ (Wild Apricot, 2018, www.wildapricot.com/).

¹¹³ AVC (2012) *The Board of Directors: Board Meetings*. Available from: <https://avc.com/2012/04/the-board-of-directors-board-meetings/>

¹¹⁴ Wild Apricot (2018) *How To Write Effective Meeting Minutes (with Templates and Examples)*. Available from: <https://www.wildapricot.com/articles/how-to-write-meeting-minutes>

2.9.1.1 What is the purpose of meeting minutes?

According to Wild Apricot (2018, www.wildapricot.com/) *what is the purpose of meeting minutes?* You shouldn't be intimidated by the term "minutes" since it's actually a little misleading. After all, your committee or Board doesn't want or need a record of its meeting proceedings minute by minute! But it is important to capture the essence of the meeting, including details such as:

- decisions made (*motions made, votes, etc.*)
- next steps planned
- identification and tracking of action items

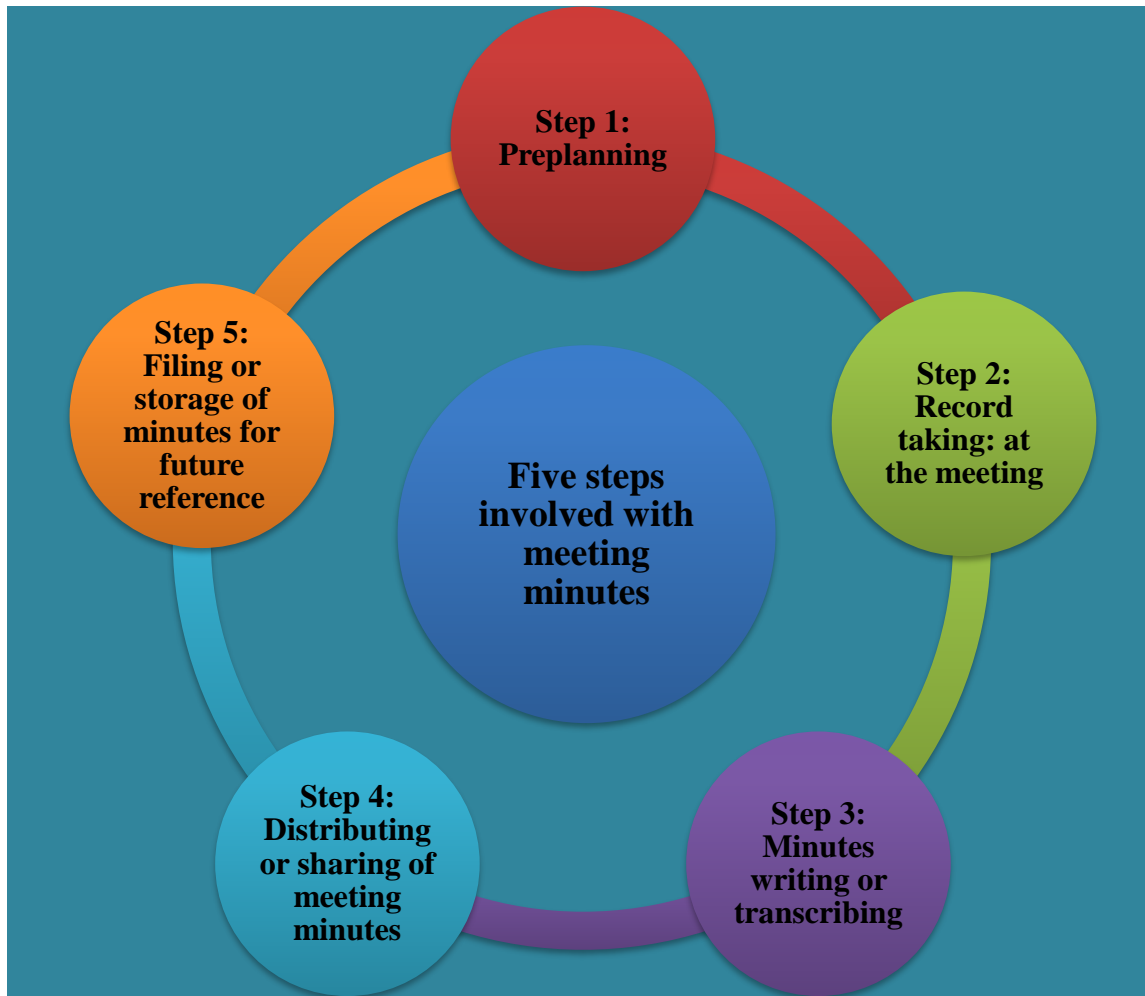
Minutes are a tangible record of the meeting for its participants and a source of information for members who were unable to attend. In some cases, meeting minutes can act as a reference point, for example:

- when a meeting's outcomes impact other collaborative activities or projects within the organization
- minutes can serve to notify (*or remind*) individuals of tasks assigned to them and/or timelines¹¹⁵(Wild Apricot, 2018, www.wildapricot.com/).

The five steps involved in the writing of minutes identified by Wild Apricot are depicted in Figure 2.4 below.

¹¹⁵ Wild Apricot (2018) *How To Write Effective Meeting Minutes (with Templates and Examples)*. Available from: <https://www.wildapricot.com/articles/how-to-write-meeting-minutes>

Figure 2.4 Five steps involved with meeting minutes



Source: Modified: (Wild Apricot, 2018, www.wildapricot.com/)

¹¹⁶According to Wild Apricot (2018, www.wildapricot.com/) what's involved with meeting minutes? There are essentially five steps involved with meeting minutes:

2.9.1.2 Pre-planning meeting minutes:

A well-planned meeting helps to ensure effective meeting minutes. If the Chair and the Secretary or minutes-taker work together to ensure the agenda and meeting are well thought out, it makes minute taking much easier. For example, depending on the meeting structure and the

¹¹⁶ Wild Apricot (2018) *How To Write Effective Meeting Minutes (with Templates and Examples)*. Available from: <https://www.wildapricot.com/articles/how-to-write-meeting-minutes>

tools you use (see Tools below), the minutes-taker could work with the Chair to create a document format that works as an agenda and minutes outline as well.

2.9.1.2.1 What is the agenda of a meeting?

2.9.1.2.1.1 Meeting agenda = outline:

At the very least, it's important to get a copy of the meeting agenda and use it as a guide or outline for taking notes and preparing the minutes – with the order and numbering of items on the minutes of the meeting matching those of the agenda. In addition, the agenda and/or meeting notice also provides information that will need to be included in the minutes, such as:

- the names of all the meeting attendees, including guests or speakers
- documents that are sent out with the agenda or handed out in the meeting – copies (digital or hard copy) of handouts should be stored with the meeting minutes for future reference and for sharing with those who were unable to attend the meeting (and others as determined by the meeting's Chair).

2.9.1.2.1.2 Clarifying Expectations:

When you take on a new role as minutes-taker or Secretary, be sure to ask the Chair of the committee or Board what their expectations are of your role during the meeting, as well as the type of detail he/she expects in the minutes. For example, if your Board or committee will be dealing with motions, or voting on items/issues, be clear on whether you need to offer names of those making motions, seconding, etc. ¹¹⁷

2.9.1.3 Record taking - what should be included?

Before you start taking notes, it's important to understand the type of information you need to record at the meeting. As noted earlier, your organization may have required content and a specific format that you'll need to follow, but generally, meeting minutes usually include the following:

¹¹⁷ Wild Apricot (2018) *How To Write Effective Meeting Minutes (with Templates and Examples)*. Available from:

<https://www.wildapricot.com/articles/how-to-write-meeting-minutes>

- Date and time of the meeting
- Names of the meeting participants and those unable to attend (e.g., “regrets”)
- Acceptance or corrections/amendments to previous meeting minutes
- Decisions made about each agenda item, for example:
 - Actions taken or agreed to be taken
 - Next steps
- Voting outcomes – e.g., (if necessary, details regarding who made motions; who seconded and approved or via show of hands, etc.)
- Motions taken or rejected
- Items to be held over
- New business
- Next meeting date and time¹¹⁸

2.9.1.3.1 Tips that might help your note taking:

- *Create an outline* – as discussed earlier, having an outline (*or template*) based on the agenda makes it easy for you to simply jot down notes, decisions, etc. under each item as you go along. If you are taking notes by hand, consider including space below each item on your outline for your hand-written notes, then print these out and use this to capture minutes.
- *Check-off attendees as they enter the room* - if you know the meeting attendees, you can check them off as they arrive, if not have folks introduce themselves at the start of the meeting or circulate an attendance list they can check-off themselves.
- *Record decisions or notes on action items* in your outline as soon as they occur to be sure they are recorded accurately
- *Ask for clarification if necessary* – for example, if the group moves on without making a decision or an obvious conclusion, ask for clarification of the decision and/or next steps involved.

¹¹⁸ Wild Apricot (2018) *How To Write Effective Meeting Minutes (with Templates and Examples)*. Available from: <https://www.wildapricot.com/articles/how-to-write-meeting-minutes>

- *Don't try to capture it all* – you can't keep up if you try to write down the conversation verbatim, so be sure to simply (*and clearly*) write (*or type*) just the decisions, assignments, action steps, etc.
- *Record it* – literally, if you are concerned about being able to keep up with note taking, consider recording the meeting (*e.g., on your smart phone, recording device, etc.*) but be sure to let participants know they are being recorded. While you don't want to use the recording to create a word-for-word transcript of the meeting, the recording can come in handy if you need clarification.¹¹⁹

2.9.1.4 The Minutes Writing Process

Once the meeting is over, it's time to pull together your notes and write the minutes. Here are some tips that might help:

- Try to write the minutes as soon after the meeting as possible while everything is fresh in your mind.
- Review your outline and if necessary, add additional notes or clarify points raised. Also check to ensure all decisions, actions and motions are clearly noted.
- ¹²⁰Check for sufficient detail: For Board of Director's minutes, [an Association Trends article](#) (by lawyers Jefferson C. Glassie and Dorothy Deng) suggests the following for Board minutes¹²¹:
 - *include a short statement of each action taken by the board and a brief explanation of the rationale for the decision*
 - *when there is extensive deliberation before passing a motion, summarize the major arguments*

¹¹⁹ Wild Apricot (2018) *How To Write Effective Meeting Minutes (with Templates and Examples)*. Available from: <https://www.wildapricot.com/articles/how-to-write-meeting-minutes>

¹²⁰ Association Trends (2019) *Dont Get Too Wordy With Board Meetings Minutes*. Available from: www.associationtrends.com/news/trends/headlines/don't-get-too-wordy-with-board-meeting-minutes [Accessed December 02, 2019]

¹²¹ Glassie, J. and Deng, D. (2012) *Board Meeting Minutes -- Best Not To Get Too Wordy!* Available from: <https://www.wtplaw.com/documents/2012/05/board-meeting-minutes-best-not-to-get-too-wordy>

- Edit to ensure brevity and clarity, so the minutes are easy to read

2.9.1.5 Distributing or Sharing Meeting Minutes

As the official “minutes-taker” or Secretary, your role may include dissemination of the minutes. However, before you share these, be sure that the Chair has reviewed and either revised and/or approved the minutes for circulation.

2.9.1.5.1 Online sharing

The method of sharing or distribution will depend on the tools that you and your organization use. Since minutes and other documentation can create a pile of paper, it’s great if you can use a paperless sharing process. For example, if you are using a word processing tool (*e.g., Microsoft Word*) that doesn’t offer online sharing, you might want to create a PDF of the document and send this and the other attachments or meeting documentation via email. Alternately, if you are all using Google docs – for meeting invitations, agenda and additional document sharing – you can simply “share” the document with that group once it has been finalized. Committee or Board members can simply read the documents online and save a few trees!

2.9.1.5.2 Sharing in the Cloud?

If your organization is using a [cloud-based](#) membership management system (like [Wild Apricot](#)), you can publish the minutes as a web page and give access only to the committee or Board members, depending on your organization’s needs. Through [members-only webpages](#), you can create a secure online Intranet for your Board and committees.

2.9.1.6 Filing/Storage of Meeting Minutes

Most committees and boards review and either approve or amend the minutes at the beginning of the subsequent meeting. Once you’ve made any required revisions, the minutes will then need to be stored for future reference. Some organizations may store these online (*e.g., in Google docs or OneDrive*) and also back these up on an external hard drive. You may also need to print and store hard copies as well or provide these to a staff member or Chair for filing¹²² (Wild Apricot,

¹²² Wild Apricot (2018) *How To Write Effective Meeting Minutes (with Templates and Examples)*. Available from: <https://www.wildapricot.com/articles/how-to-write-meeting-minutes>

2018, www.wildapricot.com/) “Used with permission from Microsoft”. [A Look into the Role of a Board of Director in this 21st Century: A North America, Asia, Africa, Oceania & Europe Perspective 1st Edition] is an independent [publication] and is neither affiliated with, nor authorized, sponsored, or approved by, Microsoft Corporation. ©2017 Google LLC, used with permission. Google and the Google logo are registered trademarks of Google LLC. The conclusion of this chapter will be covered in the next section.

2.10 Conclusion

In general officers and directors of organizations are required to uphold their fiduciary responsibilities of care, loyalty and obedience when conducting their day-to-day activities in the organization. A board of an organization has the overall duty of implementing financial controls and audits of the organization’s finances since it can be held legally liable for any wrongdoing or negligence for its actions or decisions during its term in office. It can be concluded that today there are many titles that are found in a board such as chairman, deputy chairman, secretary, treasurer and so on and these titles vary based on whether the organization is a profit-making or non-profit making organization. In addition the size and type of the organization significantly influences the types of board member titles it is likely to have.

2.11 Review questions

- (1) Explain the different roles or job titles that are found in a board? Outline the two types of boards? Explain the recruitment process of the board of directors?
- (2) Discuss the job description of a chairperson? Describe the job descriptions of a secretary and an executive director of the board?
- (3) List the requirements or person characteristics of a board chairman & an executive director?
- (4) Describe in detail what takes place in a board meeting and explain the meaning of the term minutes of a meeting?

Chapter 3: Corporate governance

After reading this chapter you should be able to:

- Explain the meaning of the term ‘corporate governance’.
- Identify the two types of corporate governance stakeholders. Outline the traits and or principles of effective corporate governance.
- Explain in detail what ‘compensation governance’ encompasses.
- Outline examples of corporate governance rules & statements from selected leading global organizations.

3.1 Introduction

According to Pearse-Trust Blog (2014) good corporate governance is a key factor in underpinning the integrity and efficiency of a company. Poor corporate governance can weaken a company’s potential, can lead to financial difficulties and in some cases can cause long-term damage to a company’s reputation. A company which applies the core principles of good corporate governance; fairness, accountability, responsibility and transparency, will usually outperform other companies and will be able to attract investors, whose support can help to finance further growth. ¹²³*Fairness* refers to equal treatment, for example, all shareholders should receive equal consideration for whatever shareholdings they hold. In the UK this is protected by the [Companies Act 2006 \(CA 06\)](#). However, some companies prefer to have a [shareholder agreement](#), which can include more extensive and effective minority protection. Corporate *accountability* refers to the obligation and responsibility to give an explanation or reason for the company’s actions and conduct. The Board of Directors are given authority to act on behalf of the company¹²⁴. They should therefore accept full *responsibility* for the powers that it is given and the authority that it exercises. The Board of Directors are responsible for

¹²³ United Kingdom Legislation.gov.uk (2018) *Companies Act 2006*. Available from; www.legislation.gov.uk/ukpga/2006/46/pdfs/ukpga_20060046_en.pdf [Accessed 2018, 25 November] ©

Legislation.gov.uk, 2018. This information is licensed under the Open Government Licence v3.0. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> OGL v3.0

¹²⁴ Pearse-Trust Blog (2014) *The Core Principles Of Good Corporate Governance*. Available from:

<https://www.pearse-trust.ie/blog/bid/108866/the-core-principles-of-good-corporate-governance>

overseeing the management of the business, affairs of the company, appointing the chief executive and monitoring the performance of the company. In doing so, it is required to act in the best interests of the company. A principle of good governance is that stakeholders should be informed about the company's activities, what it plans to do in the future and any risks involved in its business strategies. *Transparency* means openness, a willingness by the company to provide clear information to shareholders and other stakeholders. For example, transparency refers to the openness and willingness to disclose financial performance figures which are truthful and accurate¹²⁵ (Pearse-Trust Blog, 2014, www.pearse-trust.ie/). The meaning of the term corporate governance will be discussed in the following section.

3.2 Definition of the term ‘corporate governance’

Numerous definitions of corporate governance have been developed by academics, industry experts and business gurus over the past years. “Worldwide, the definition of *corporate governance* may include regional nuances, but corporate governance in Canada involves regulatory and market mechanisms, and reconciling the roles and relationships between numerous corporate stakeholders within an organization and the governance goals within a corporation” (Governance Professionals of Canada, 2018, <https://gpcanada.org/>).¹²⁶ “*Corporate governance* is the system of rules, practices and processes by which a company is directed and controlled. *Corporate Governance* refers to the way in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes decisions. It is, in essence, a toolkit that enables management and the board to deal more effectively with the challenges of running a company. Corporate governance ensures that businesses have appropriate decision-making processes and controls in place so that the interests of all stakeholders (shareholders, employees, suppliers, customers and the community) are balanced”

¹²⁵ Pearse-Trust Blog (2014) *The Core Principles Of Good Corporate Governance*. Available from: <https://www.pearse-trust.ie/blog/bid/108866/the-core-principles-of-good-corporate-governance>

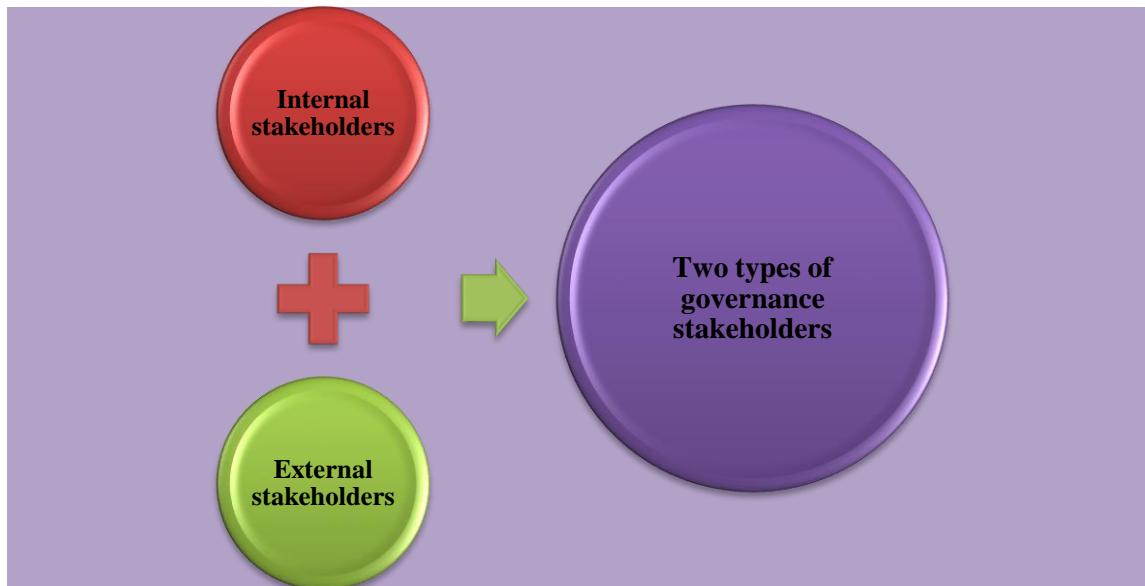
¹²⁶ ICSA The Governance Institute (2018) *What is Corporate Governance?* Available from: <https://www.icsa.org.uk/about-us/policy/what-is-corporate-governance>

(ICSA The Governance Institute, 2018, www.icsa.org.uk/). The two types of governance stakeholders will be discussed in the following section.

3.3 Two types of governance stakeholders

In general there are two types of stakeholders of corporate governance and these are depicted in Figure 3.1 below.

Figure 3.1 Two types of governance stakeholders



Source: Modified (Governance Professionals of Canada, 2018, <https://gpcanada.org/>)

The types of governance stakeholders include the following:

3.3.1 Internal governance stakeholders

According to the Governance Professionals of Canada (2018) internal governance stakeholders include:

- Company management
- Executives
- Board of Directors
- Shareholders and other corporate stakeholders

- Employees¹²⁷ (Governance Professionals of Canada, 2018, <https://gpcanada.org/>).

3.3.2 External governance stakeholders

According to the Governance Professionals of Canada (2018) external governance stakeholders include:

- Shareholders
- Debt holders
- Trade creditors
- Suppliers, customers and communities affected by a corporation's activities (Governance Professionals of Canada, 2018, <https://gpcanada.org/>). The advantages of good corporate governance by board of directors will be covered in the following section.

3.4 Benefits of good corporate governance

A board should consistently be guided by what the organization stands for that is its values, principles, and vision. Today there are several benefits that can be enjoyed by organizations with board of directors that follow good corporate governance practices. “Corporate governance is also very beneficial in many regards. For instance, when running a company, it can be easy to violate rules and regulations if you don't have legal experience. Putting corporate governance procedures in place can help you comply with these laws so that you spend your time focusing on your company's success. Corporate governance provides a set of rules you can follow to better manage your company, while steering clear of ethical violations. If you're diligent about following corporate governance regulations, you can also boost your company's reputation. A company with a strong reputation will have an easier time attracting investors and developing strong relationships with customers. Corporate governance, because it helps your company abide by the law, can also reduce the likelihood of expensive fines or lawsuits”¹²⁸ (Upcounsel. 2019, www.upcounsel.com). According to Palmer, J. cited in the Corporate Governance Institute

¹²⁷ Governance Professionals of Canada (2018) *About Corporate Governance*. Available from: <https://www.gpcanada.org/About-corporate-governance>

¹²⁸ Upcounsel (2019) *Pros and Cons of Corporate Governance*. Available from: <https://www.upcounsel.com/pros-and-cons-of-corporate-governance>

(2019) *holding directors accountable*. A clearly defined and tailored Corporate Governance Framework® enables the board to quickly adopt a stakeholder-inclusive approach, by overseeing the opportunities and risks within the organisation. Board members are required to evaluate and consider the legitimate and reasonable needs of all stakeholders when establishing and identifying those governance components which are important to the organisation. The governance framework provides a mechanism for stakeholders (in particular investors) to more easily hold the board accountable for managing the organisation in a responsible and sustainable manner. *Improves enterprise wide risk management*. Although the Corporate Governance Framework® helps to identify governance components requiring urgent attention, it should not be substituted for a corporate risk register. The latter is integrated into a Corporate Governance Framework® as a subset of each governance component. The risk register records the granular details of the risks, impact thereof and associated action plans for each governance component and area of business – as such it can inform the RAG status of a governance component. The Corporate Governance Framework®, however, provides a holistic structure for governance processes starting with the board and strategic management, and extending to operations via the management level and the supply chain. The governance framework presents a singular high level view of the concentration of risk within the organisation. Such information can also be invaluable when evaluating an acquisition, or preparing for the organisation’s next phase of growth. *Facilitates integrated reporting*. The availability of a Corporate Governance Framework® makes it much easier for an organisation to provide relevant, concise, holistic and timeous information on the strategic direction, performance, risks and opportunities facing the business. By focusing and reporting on material items — and how these are inter-linked — the board is able to foster a culture of transparent and meaningful communication and in so doing, continuously build a relation of trust with each of its key stakeholders¹²⁹ (Palmer, 2019, <https://corgovinstitute.com>).¹³⁰ According to E-Corporate Social and Responsibility (*E-CSR.net*)

¹²⁹ Palmer, J. (2019) *Tangible Benefits of a Corporate Governance Framework*. Available from: <https://corgovinstitute.com/tangible-benefits-corporate-governance-framework/> [Accessed 2019, 10 August] The Corporate Governance Framework® is a registered trademark of CGF.

¹³⁰ E-Corporate Social and Responsibility (*E-CSR.net*) (2019) *What are is the Purpose of Corporate Governance? What are the Benefits?* Available from: <https://e-csr.net/definitions/corporate-governance-definition-purpose-and-benefits/>

(2019) *9 Positive Impacts of Corporate Governance in Companies*. A good corporate governance system:

- Ensures that the management of a company considers the best interests of everyone;
- Helps companies deliver long-term corporate success and economic growth;
- Maintains the confidence of investors and as consequence companies raise capital efficiently and effectively;
- Has a positive impact on the price of shares as it improves the trust in the market;
- Improves the control over management and information systems (such as security or risk management)
- Gives guidance to the owners and managers about what are the goals strategy of the company;
- Minimizes wastages, corruption, risks, and mismanagement;
- Helps to create a strong brand reputation;
- Most importantly – [it makes companies more resilient](https://e-csr.net/)¹³¹ (E-CSR.net, 2019, <https://e-csr.net/>).

The various traits of good corporate governance will be covered in the following section.

3.5 The traits and or principles of effective corporate governance

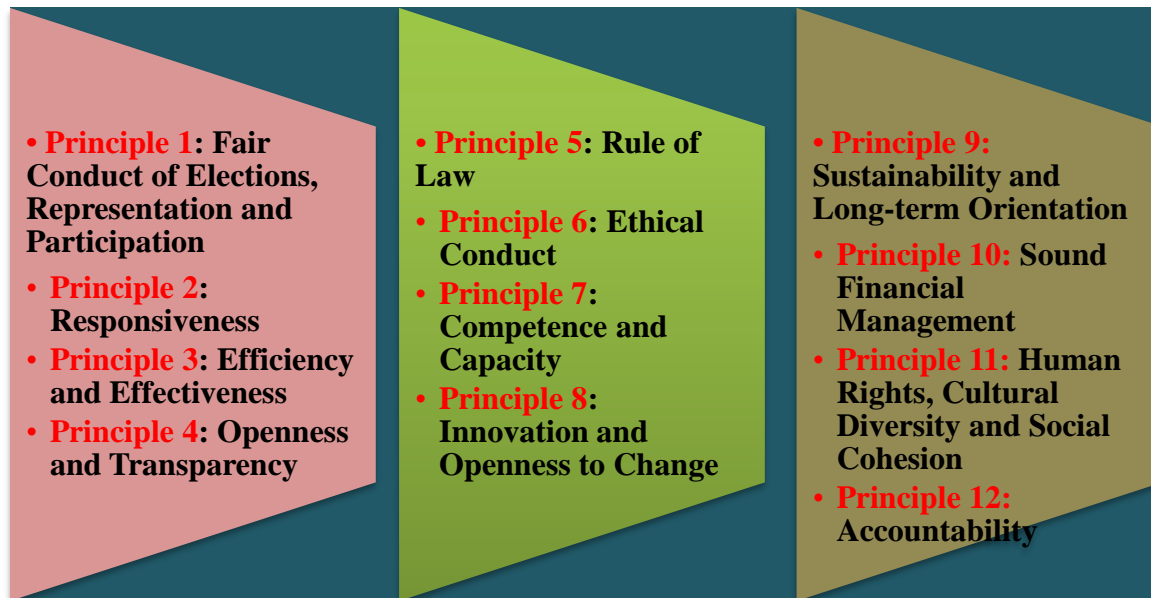
There are various traits and or principles that can be used to identify good corporate governance in an organization. It is the fiduciary duty of the board of directors to ensure that good corporate governance principles are practiced in the organization on a continuous basis.¹³² Some of the principles of good corporate governance were highlighted by the Council of Europe (2019) *12*

¹³¹ E-Corporate Social and Responsibility (*E-CSR.net*) (2019) *What are is the Purpose of Corporate Governance? What are the Benefits?* Available from: <https://e-csr.net/definitions/corporate-governance-definition-purpose-and-benefits/>

¹³² Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: <https://www.coe.int/en/web/good-governance/12-principles-and-eloge#%7B%2225565951%22%3A%5B%5D%7D> © Council of Europe.

Principles of Good Governance and European Label of Governance Excellence (ELoGE) via www.coe.int/ © Council of Europe. and these will be depicted by Figure 3.2 below.

Figure 3.2 The 12 principles of good corporate governance



Source: Modified (Council of Europe, 2019, <https://www.coe.int/>) © Council of Europe.

The 12 principles of good corporate governance that were previously highlighted by Figure 3.2 above will now be further explained below.¹³³ According to the Council of Europe (2019):

Principle 1

Fair Conduct of Elections, Representation and Participation

- There is always an honest attempt to mediate between various legitimate interests and to reach a broad consensus on what is in the best interest of the whole community and on how this can be achieved
- Decisions are taken according to the will of the many, while the rights and legitimate interests of the few are respected.

¹³³ Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: <https://www.coe.int/en/web/good-governance/12-principles-and-elope#%7B%2225565951%22%3A%5B%5D%7D> © Council of Europe.

“Partial reproduction; please see [link] for full text”. [https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:\[11\]](https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:[11]) © Council of Europe.

Principle 2

Responsiveness

- Objectives, rules, structures, and procedures are adapted to the legitimate expectations and needs of citizens.
- Public services are delivered, and requests and complaints are responded to within a reasonable timeframe.

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Principle 3

Efficiency and Effectiveness

- Results meet the agreed objectives.
- Best possible use is made of the resources available.
- Performance management systems make it possible to evaluate and enhance the efficiency and effectiveness of services.
- Audits are carried out at regular intervals to assess and improve performance¹³⁴.

Principle 4

Openness and Transparency

- Decisions are taken and enforced in accordance with rules and regulations.

¹³⁴ Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: [https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:\[11\]](https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:[11]) © Council of Europe.

- There is public access to all information which is not classified for well-specified reasons as provided for by law (such as the protection of privacy or ensuring the fairness of procurement procedures).
- Information on decisions, implementation of policies and results is made available to the public in such a way as to enable it to effectively follow and contribute to the work of the local authority.

Principle 5

Rule of Law

- The local authorities abide by the law and judicial decisions.
- Rules and regulations are adopted in accordance with procedures provided for by law and are enforced impartially¹³⁵.

“Partial reproduction; please see [link] for full text”. [https://www.coe.int/en/web/good-governance/12-principles-and-elope#{%225565951%22:\[11\]}](https://www.coe.int/en/web/good-governance/12-principles-and-elope#{%225565951%22:[11]}) © Council of Europe.

Principle 6

Ethical conduct

- The public good is placed before individual interests.
- There are effective measures to prevent and combat all forms of corruption.
- Conflicts of interest are declared in a timely manner and persons involved must abstain from taking part in relevant decisions.

“Partial reproduction; please see [link] for full text”. [https://www.coe.int/en/web/good-governance/12-principles-and-elope#{%225565951%22:\[11\]}](https://www.coe.int/en/web/good-governance/12-principles-and-elope#{%225565951%22:[11]}) © Council of Europe.

¹³⁵ Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: [https://www.coe.int/en/web/good-governance/12-principles-and-elope#{%225565951%22:\[11\]}](https://www.coe.int/en/web/good-governance/12-principles-and-elope#{%225565951%22:[11]}) © Council of Europe.

Principle 7

Competence and Capacity

- The professional skills of those who deliver governance are continuously maintained and strengthened in order to improve their output and impact.
- Public officials are motivated to continuously improve their performance.
- Practical methods and procedures are created and used in order to transform skills into capacity and to produce better results.

Principle 8

Innovation and Openness to Change

- New and efficient solutions to problems are sought and advantage is taken of modern methods of service provision.
- There is readiness to pilot and experiment new programmes and to learn from the experience of others.
- A climate favourable to change is created in the interest of achieving better results¹³⁶.

Principle 9

Sustainability and Long-term Orientation

- The needs of future generations are taken into account in current policies.
- The sustainability of the community is constantly taken into account.
- Decisions strive to internalise all costs and not to transfer problems and tensions, be they environmental, structural, financial, economic or social, to future generations.

¹³⁶ Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: [https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:\[11\]](https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:[11]) © Council of Europe.

- There is a broad and long-term perspective on the future of the local community along with a sense of what is needed for such development.
- There is an understanding of the historical, cultural and social complexities in which this perspective is grounded¹³⁷.

Principle 10

Sound Financial Management

- Prudence is observed in financial management, including in the contracting and use of loans, in the estimation of resources, revenues and reserves, and in the use of exceptional revenue.
- Risks are properly estimated and managed, including by the publication of consolidated accounts and, in the case of public-private partnerships, by sharing the risks realistically.

Principle 11

Human rights, Cultural Diversity and Social Cohesion

- Within the local authority's sphere of influence, human rights are respected, protected and implemented, and discrimination on any grounds is combated.
- Cultural diversity is treated as an asset, and continuous efforts are made to ensure that all have a stake in the local community, identify with it and do not feel excluded.
- Social cohesion and the integration of disadvantaged areas are promoted.
- Access to essential services is preserved, in particular for the most disadvantaged sections of the population.

“Partial reproduction; please see [link] for full text”. [https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:\[11\]](https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:[11]) © Council of Europe.

¹³⁷ Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: [https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:\[11\]](https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:[11]) © Council of Europe.

Principle 12

Accountability

- All decision-makers, collective and individual, take responsibility for their decisions.
- Decisions are reported on, explained and can be sanctioned.
- There are effective remedies against maladministration and against actions of local authorities which infringe civil rights¹³⁸ (Council of Europe, 2019, [https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:\[11\]}](https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:[11]})) © Council of Europe. The governance of compensation will be covered in the following section.

3.6 Compensation governance

¹³⁹According to the Governance Professionals of Canada (2018) for both for-profit and not-for-profit organizations, *governance of executive compensation* and *directors' salaries* can present major challenges. Disclosure practices may be scrutinized or subjected to ever-increasing requirements. Across the board, organizations need a clearly defined mission and vision that translates into concrete goals for measuring executive compensation and board of directors' pay. Effective governance is clearly the answer to resolving the pay-for-performance challenge. Each member of a board of directors owes a fiduciary duty to establish a compensation strategy that does not include excessive board compensation. The test of viability is the board's ability to translate that strategy into performance metrics for executive and director compensation.

Executive compensation governance:

- Should be based on established and clearly documented performance-based metrics

¹³⁸ Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: [https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:\[11\]}](https://www.coe.int/en/web/good-governance/12-principles-and-elope#%2225565951%22:[11]}) © Council of Europe.

¹³⁹ Governance Professionals of Canada (2018) *Compensation Governance*. Available from: <https://gpcanada.org/compensation>

- Executive compensation programs must provide reasonable and competitive rewards based on performance

Director compensation governance:

- Director compensation may be in the form of annual retainer
- Like executive compensation, should be based on established and clearly documented performance-based metrics

Director Compensation

For any public organization, transparent disclosure of executive and **director compensation** is an essential component of good governance. In order to demonstrate accountability to stakeholders, organizations must employ **disclosure practices** that clarify and publically make known the roles and responsibilities of board and management with regard to director's salaries. They must also implement procedures to independently verify and safeguard the integrity of the company's financial reporting - including board compensation reports. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information¹⁴⁰ (Governance Professionals of Canada, 2018, <https://gpcanada.org/compensation>). Furthermore, according to the Governance Professionals of Canada (2018):

Further reading - the Canadian Coalition for Good Governance (www.ccg.ca)

¹⁴¹In 2011 the Canadian Coalition for Good Governance released a set of principles for director compensation.

According to the principles:

¹⁴⁰ Governance Professionals of Canada (2018) *Compensation Governance*. Available from; <https://gpcanada.org/compensation>

¹⁴¹ Canadian Coalition for Good Governance, 2011, <https://ccgg.ca/> cited in Governance Professionals of Canada (2018) *Compensation Governance*. Available from; <https://gpcanada.org/compensation>

- i. Director compensation should not be so high as to potentially compromise the independence of directors
- ii. Compensation should reflect expertise and a director's actual time commitment to the board
- iii. Director Compensation should vary for different roles
- vi. Boards should consider requiring a minimum shareholding for directors, and encourage investment beyond the minimum
- v. Boards should minimize the complexity of director compensation structures
- vi. Directors should consider periodically seeking approval for directors' compensation from shareholders.

Executive Compensation, what must companies disclose?

Any significant change to *executive compensation* policy the company plans to make in the next financial year,

- Whether or not officers or directors are permitted to hedge against declines in market value of equity securities received as part of executive compensation
- The aggregate value of vested share-based awards that have not yet been paid
- Information regarding how executive compensation decisions are made and how executive and director compensation relates to governance of the company¹⁴² (Governance Professionals of Canada, 2018, <https://gpcanada.org/compensation>). Some of the few selected examples of corporate governance statements or guidelines will be discussed in the following section.

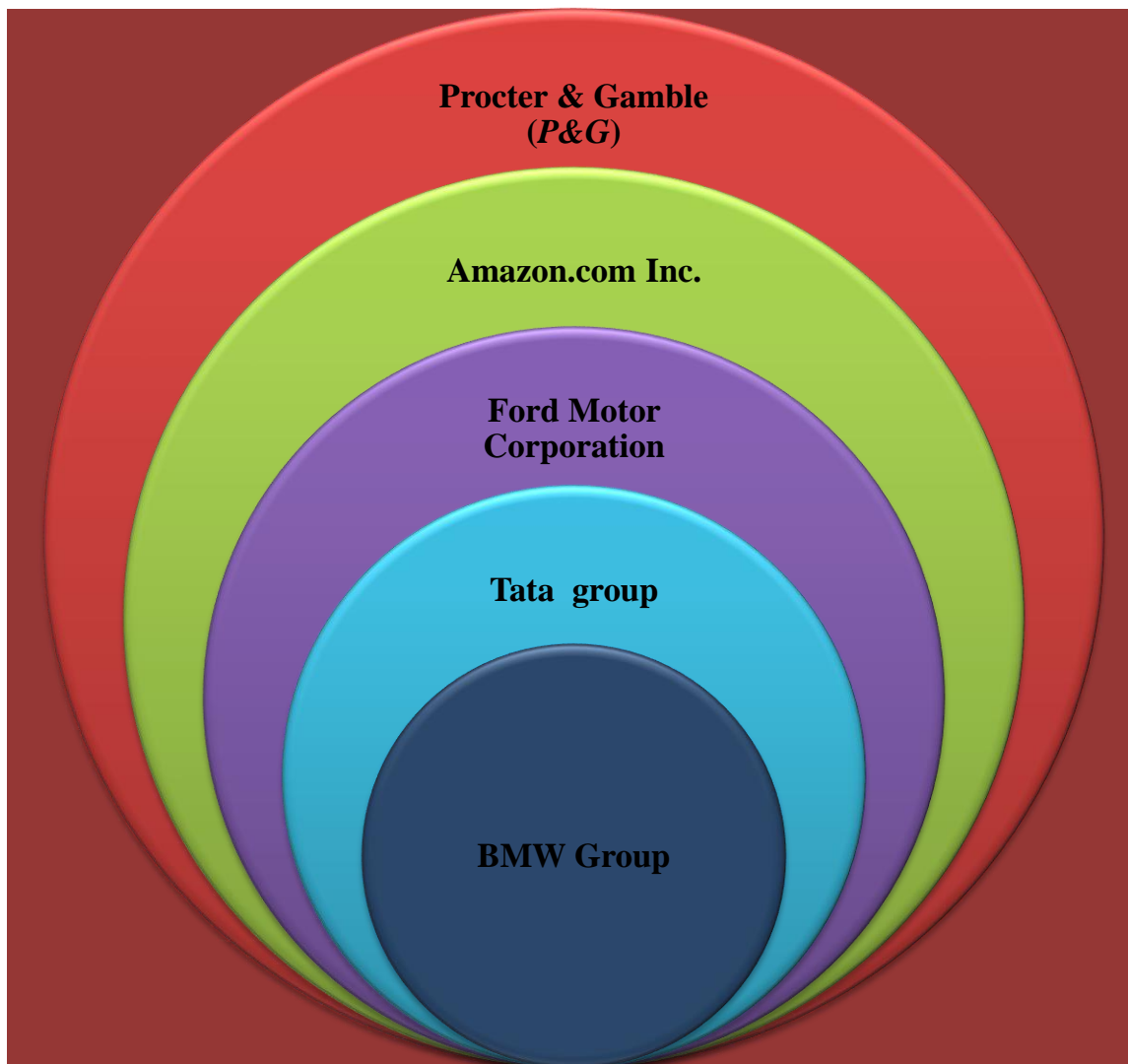
3.7 Examples of corporate governance rules & statements from selected global organizations

It is important for each and every organization to have a well established corporate governance guideline its employees, management and board of directors use in the day-to-day operational activities of the organization. Corporate governance guidelines help organizations to uphold their social responsibility goals, ethics, put the interests of shareholders and employees in any action

¹⁴² Governance Professionals of Canada (2018) *Compensation Governance*. Available from; <https://gpcanada.org/compensation>

or decision making process. There are several governance statements that are used by different organizations located in different parts of the world. Some of the few selected global organizations that have remarkable corporate governance statements are depicted in Figure 3.3 below.

Figure 3.3 Examples of corporate governance statements of a few selected global organizations



Source: Modified: (Procter & Gamble, 2018, <https://us.pg.com/>; Amazon.com Inc., 2018, <https://ir.aboutamazon.com/>; Ford Motor Corporation, 2018, <https://shareholder.ford.com/>; Tata Sons Private Limited, 2019, <https://www.tata.com/>; BMW Group, 2016, <https://www.bmwgroup.com/>).

3.7.1 Procter & Gamble (P&G)

Corporate Governance Overview

¹⁴³““At P&G, our [Purpose, Values, and Principles \(PVPs\)](#) are the foundation of everything we do – this includes Corporate Governance. Corporate Governance is how the management, shareholders and Board of Directors ensure all investors—both shareholders and creditors—are protected against managers acting solely in their best interest.

Our governance consists of laws, policies, procedures and practices that protect the well-being of P&G. The policies, procedures and practices in this section demonstrate how seriously we take corporate governance. Our management acts as long-term investors because they, like most P&G employees at all levels, are in fact long-term investors.

Employees are long-term investors

In 1887, before P&G was even a publicly traded company, William Cooper Procter introduced a profit-sharing program for employees. At the time, he said, “We should let the employees share in the firm’s earnings. That will give them an incentive to increase earnings.” He revised that program in 1903 to have the profit sharing be awarded in the form of actual P&G stock. He reasoned that as employees became stockholders, their economic interests and those of the Company would be bound more closely together.

That program still exists today, with a large part of each U.S. employee’s retirement consisting of P&G stock. Additionally, virtually all employees own P&G stock or stock rights via various investment programs. Because of this, employees’ economic interests are aligned with the Company.

Our Executive Share Ownership Program requires senior executives to own shares of company stock and/or restricted stock units valued at eight times base salary for the CEO, and five times base salary for the other senior executives. Non-employee directors must own company stock and/or restricted stock units worth six times their annual cash retainer. These compensation

¹⁴³ Procter & Gamble (2018) *Structure & Governance*. Available from: <https://us.pg.com/structure-and-governance/corporate-governance-overview/>

programs help to ensure the alignment of the interests of our senior executives and directors with shareholders.

A foundation of integrity

P&G has a strong history of operating with integrity throughout the company—at all levels, in all countries, both internally and externally. Our actions and the actions of all our employees are governed by our Purpose, Values and Principles. The basis for every decision we make at P&G can be found in our Purpose, Values and Principles—our PVPs. The clarity and constancy of the Company’s PVPs is the one factor above all others that has driven the Company’s growth over generations. Our commitment to operate responsibly is reflected in the steps we have in place to ensure rigorous financial discipline and Corporate Governance¹⁴⁴.

- We have an active, capable and diligent Board of Directors that meets the required standards of independence, with members who understand their role in providing strong Corporate Governance. Our Audit Committee is composed exclusively of independent directors with significant financial knowledge and experience. The Audit Committee also meets regularly in private session with the Company’s independent auditors, Deloitte & Touche LLP.
- We maintain a strong internal control environment. Our rigorous business process controls include written policies and procedures, segregation of duties and the careful selection and development of employees. The system is designed to provide reasonable assurance that transactions are executed as authorized and appropriately recorded, that assets are safeguarded and that accounting records are sufficiently reliable to permit the preparation of financial statements conforming in all material respects with accounting principles generally accepted in the United States. We monitor these internal controls through an ongoing program of audit self-assessment and internal and external audits.
- We maintain disclosure controls and procedures designed to ensure that information required to be disclosed is recorded, processed, summarized and reported in a timely and accurate manner.

¹⁴⁴ Procter & Gamble (2018) *Structure & Governance*. Available from: <https://us.pg.com/structure-and-governance/corporate-governance-overview/>

Our Disclosure Committee is comprised of senior-level executives responsible for evaluating disclosure implications of significant business activities and events.

- We execute financial stewardship by maintaining specific programs and activities to ensure that employees understand their fiduciary responsibilities to shareholders. This ongoing effort encompasses financial discipline in strategic and daily business decisions and brings particular focus to maintaining accurate financial reporting and effective controls. In addition, our Global Leadership Council is actively involved in rigorous oversight of the business¹⁴⁵.
- We reinforce key employee responsibilities through the Company's Worldwide Business Conduct, which details management's and the Board of Directors' commitment to conduct the Company's business affairs with high ethical standards. Every employee is required to be trained on the Company's Worldwide Business Conduct Manual, and every employee is held personally accountable for compliance. Portions of the Worldwide Business Conduct Manual comprise P&G's Code of Ethics for SEC and Stock Exchange Regulatory Purposes, as further described in the Manual.

Doing what's right

Our reputation is earned by our conduct. What we say, what we do, the products we make, the services we provide and the way we act define us as a company. As conscientious citizens and employees, we only want to do what's right. As a global leader, this is the only way to do business”” (Procter & Gamble, 2018, <https://us.pg.com/structure-and-governance/corporate-governance-overview/>).

¹⁴⁵ Procter & Gamble (2018) *Structure & Governance*. Available from: <https://us.pg.com/structure-and-governance/corporate-governance-overview/>

3.7.2 Amazon.com Inc.

““Guidelines on Significant Corporate Governance Issues: AMAZON.COM, INC. BOARD OF DIRECTORS GUIDELINES ON SIGNIFICANT CORPORATE GOVERNANCE ISSUES

I. Responsibility of the Board

The Board of Directors is responsible for the control and direction of the Company. It represents and is accountable only to shareowners. The Board's primary purpose is to build long-term shareowner value¹⁴⁶.

II. Board Composition

The Board believes that there should at all times be a majority of independent directors on the Board. The Board also believes it is appropriate that the Chief Executive Officer serve as a director. An independent director is a person that meets the definition of independent under applicable Nasdaq requirements and does not have any other relationship with Amazon.com which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out director responsibilities.

III. Board Membership

Selection of Candidates for Board Membership

The full Board, on the recommendation of the Nominating and Corporate Governance Committee, nominates candidates for election to the Board. In selecting candidates for recommendation to the Board, the Nominating and Corporate Governance Committee annually reviews the tenure, performance, and contributions of existing Board members to the extent they are candidates for re-election, and considers all aspects of each candidate's qualifications and

¹⁴⁶ Amazon.com Inc. (2018) *Guidelines on Significant Corporate Governance Issues*. Available from; <https://ir.aboutamazon.com/corporate-governance/documents-charters/guidelines-significant-corporate-governance-issues>

skills in the context of the needs of the Company at that point in time with a view to creating a Board with a diversity of experience and perspectives, including diversity with respect to race, gender, geography, and areas of expertise. Accordingly, the Nominating and Corporate Governance Committee includes, and has any search firm that it engages include, women and minority candidates in the pool from which the Committee selects director candidates. Among the qualifications and skills of a candidate considered important by the Nominating and Corporate Governance Committee are a commitment to representing the long-term interests of the shareowners; customer experience skills; internet savvy; an inquisitive and objective perspective; the willingness to take appropriate risks; leadership ability; personal and professional ethics, integrity and values; practical wisdom and sound judgment; and business and professional experience in fields such as operations, technology, finance/accounting or marketing¹⁴⁷.

Lead Director

The independent directors, on the recommendation of the Nominating and Corporate Governance Committee, will appoint an independent director to serve as lead director. The lead director is elected for a two year term, unless he or she no longer serves as a director, and may not serve more than two consecutive terms. The lead director (i) presides at the executive sessions of independent directors, (ii) chairs Board meetings in the Chair's absence and (iii) provides direction regarding the agendas, schedules and materials for Board meetings that will be most helpful to the independent directors.

Directors Who Change Their Present Job Responsibility

The Board believes that directors who retire or change from the position they held when they came on the Board should not necessarily leave the Board. The Nominating and Corporate Governance Committee will, however, review the continued appropriateness of service under the circumstances, including a review of the ability of such director to give independent advice to

¹⁴⁷ Amazon.com Inc. (2018) *Guidelines on Significant Corporate Governance Issues*. Available from; <https://ir.aboutamazon.com/corporate-governance/documents-charters/guidelines-significant-corporate-governance-issues>

Amazon.com and to fully meet the responsibilities of a director. Each director will immediately inform the Chairman of the Nominating and Corporate Governance Committee of any new position. The Board believes that directors who are also employees of Amazon.com should retire from the Board at the same time they relinquish their corporate officer title, unless the Board requests that such director continue¹⁴⁸.

Stock Ownership

Each non-employee director shall hold Company shares equal to at least three times the director's annual compensation, as measured by the number of shares scheduled to vest annually, on a pro rata basis, under the director's most recent restricted stock unit award. This ownership level shall be achieved by the latest of January 1, 2015, the fifth anniversary of a director's initial election to the Board, and three years of vesting under the director's most recent restricted stock unit award. The Nominating and Corporate Governance Committee may make exceptions for individual directors based on financial hardship.

Priority of Board Duties

Each Board member will ensure that other existing and planned future commitments, including employment responsibilities and service on the boards of directors of other entities, do not materially interfere with the member's service as a director. Each director is expected to make reasonable efforts to attend Board meetings, meetings of Committees of which such director is a member, and the Annual Meeting of Shareholders.

IV. Code of Business Conduct and Ethics

Directors must abide by the relevant provisions of the Company's Code of Business Conduct and Ethics.

V. Executive Performance and Succession; Executive and Board Compensation

¹⁴⁸ Amazon.com Inc. (2018) *Guidelines on Significant Corporate Governance Issues*. Available from; <https://ir.aboutamazon.com/corporate-governance/documents-charters/guidelines-significant-corporate-governance-issues>

Executive Performance and Succession

The Board will review its own performance and the performance of the CEO and will set goals at least annually. The Board and the Leadership Development and Compensation Committee are responsible for succession planning, which will be reviewed at least annually, and will include CEO succession in the ordinary course, CEO succession in the event of an emergency and succession for other key senior management positions. Each year, as part of its succession planning process, the Board and the Leadership Development and Compensation Committee review the experience, skills and competencies of potential successors, including in light of the Company's customer-centric mission and business strategy¹⁴⁹.

Executive Compensation

The independent directors consult together privately (without the presence of the CEO or any other employee director) on an informal basis periodically to review the compensation and performance of the CEO and the other executive officers. The Leadership Development and Compensation Committee conducts, and reviews with the outside directors, a periodic evaluation regarding the overall compensation of all executive officers.

Board Compensation

Changes in Board compensation, if any, should come at the recommendation of the Nominating and Corporate Governance Committee and will require approval of the Board.

Clawback Policy

If the Board, the Leadership Development and Compensation Committee, or another committee of the Board, (the "Committee") determines that a current or former Chief Executive Officer, Chief Financial Officer, Senior Vice President, or Section 16 officer ("Officer") of the Company engaged in fraud or intentional misconduct that caused or contributed to an obligation to restate

¹⁴⁹ Amazon.com Inc. (2018) *Guidelines on Significant Corporate Governance Issues*. Available from; <https://ir.aboutamazon.com/corporate-governance/documents-charters/guidelines-significant-corporate-governance-issues>

the Company's financial statements, the Committee may require the Officer to return or forfeit all or a portion of the shares subject to any vested or unvested equity award that was settled or granted during or within 12 months after the period that such conduct occurred or remained uncorrected, as well as all or a portion of any cash bonus paid or awarded during such time period. The Committee may also require the Officer to pay to the Company the gross proceeds from any sale or other disposition of shares, pursuant to a Company vested equity award, that occurred during or within 12 months after the period that such conduct occurred or remained uncorrected. The return of shares and repayment of proceeds is in addition to and separate from any other relief available to the Company due to the Officer's conduct. Any determination by the Board or Committee with respect to the foregoing shall be final, conclusive, and binding on all interested parties.

VI. Executive Session

The independent directors of the Board shall meet periodically in executive session¹⁵⁰.

VII. Committees

The current committees of the Board are the Audit Committee, the Leadership Development and Compensation Committee and the Nominating and Corporate Governance Committee. The committees keep the Board informed of their actions and provide assistance to the Board in fulfilling their oversight responsibility to the shareowners. All members of each committee will be directors whom the Board determines are independent as provided in Section II above, with members of each committee meeting any additional Nasdaq and SEC independence requirements.

¹⁵⁰ Amazon.com Inc. (2018) *Guidelines on Significant Corporate Governance Issues*. Available from; <https://ir.aboutamazon.com/corporate-governance/documents-charters/guidelines-significant-corporate-governance-issues>

VIII. Shareowner Communications

Shareowners may contact the Board regarding bona fide issues or questions about the Company by sending an email to shareholder_board_communications@amazon.com or a letter to Shareholder-Board Communications c/o Secretary, Amazon.com, Inc., P.O. Box 81226, Seattle, WA 98108-1226. The Secretary periodically will forward such communications or a summary to the Board¹⁵¹.

IX. Director Election and Resignation

The Board will nominate for election or re-election as director, and will appoint to fill vacancies and new directorships, only candidates who agree to tender irrevocable resignations that will be effective upon (i) the failure to receive a sufficient number of votes for re-election at any shareowner meeting at which they face re-election and (ii) Board acceptance of such resignation.

If an incumbent director fails to receive the required vote for re-election, the Nominating and Corporate Governance Committee will determine whether the Board should accept the director's resignation and will submit such recommendation for prompt consideration by the Board. The Board expects the director whose resignation is under consideration to abstain from participating in any decision regarding that resignation. The Nominating and Corporate Governance Committee and the Board may consider any factors they deem relevant in deciding whether to accept a director's resignation”” (Amazon.com Inc., 2018, <https://ir.aboutamazon.com/corporate-governance/documents-charters/guidelines-significant-corporate-governance-issues>).

3.7.3 Ford Motor Corporation

““Governance

¹⁵¹ Amazon.com Inc. (2018) *Guidelines on Significant Corporate Governance Issues*. Available from; <https://ir.aboutamazon.com/corporate-governance/documents-charters/guidelines-significant-corporate-governance-issues>

Ford has a long history of operating under sound corporate governance practices. Our corporate officers and board of directors are dedicated to serving the interests of our shareholders and creating long-term value.

- Our Creating Value Roadmap Process is designed to ensure that our business manages risk and operates in a transparent and accountable way
- Our board of directors includes a diverse range of international experience and includes a Lead Independent Director in addition to the CEO and Chairman
- We have institutionalized the Creating Value Roadmap Process, which includes a Business Plan Review and a Special Attention Review process where the senior leadership of the Company regularly reviews the status of the business, the risk and opportunities presented to the business, and specific plans to address those risks and opportunities.
- Our executives' compensation is tied to performance against defined metrics that are aligned with our strategic objectives to incentivize focus on strengthening our business for the long term
- Our shareholders are asked to approve executive compensation with an annual say-on-pay vote; investors supported the compensation of named executives with 96.5% percent of votes cast “for” in 2017 and 97.5% of votes cast “for” in 2018
- We promote a culture of compliance and ethics across our business and around the world, formalized in company policies and reinforced by management and our brand promise to Go Further¹⁵² (Ford Motor Corporation, 2018, <https://shareholder.ford.com/investors/corporate-governance/executive-team/default.aspx>).

According to Ford Motor Corporation (2018:14) Corporate Governance Review:

Governance Practices

- Annual election of all Directors

¹⁵² Ford Motor Corporation (2018) *Corporate Governance*. Available from: <https://shareholder.ford.com/investors/corporate-governance/executive-team/default.aspx>

- Majority vote standard
- Independent Board
- Lead Independent Director
- Committee charters reviewed annually
- Independent Directors meet regularly without management and Non-Independent Directors
- Regular Board and Committee self-evaluations
- Independent Audit, Compensation and Nominating & Governance Committees
- Separate Chairman of the Board and CEO
- Mandatory deferral of compensation for¹⁵³

Directors

- 75% attendance requirement
- Confidential voting
- Shareholders have the right to call special meetings
- Shareholders may take action by written consent
- Strong codes of ethics
- Compensation for NEOs focused on performance¹⁵⁴ (Ford Motor Corporation, 2018, *Corporate Governance Review*, https://s22.q4cdn.com/857684434/files/doc_downloads/governance/Ford-Corporate-Governance_May-2018.pdf).

3.7.4 Tata group

¹⁵⁵**Values & Purpose:** *Integrity, Responsibility, Excellence, pioneering and Unity*

¹⁵³ Ford Motor Corporation (2018) *Corporate Governance*. Available from:

<https://shareholder.ford.com/investors/corporate-governance/executive-team/default.aspx>

¹⁵⁴ Ford Motor Corporation (2018) *Corporate Governance Review*. Available from:

https://s22.q4cdn.com/857684434/files/doc_downloads/governance/Ford-Corporate-Governance_May-2018.pdf

““Business, as I have seen it, places one great demand on you: it needs you to self-impose a framework of ethics, values, fairness and objectivity on yourself at all times.” - Ratan N Tata, 2006

Core values:

Tata has always been a values-driven organisation. These values continue to direct the growth and business of Tata companies. The five core Tata values underpinning the way we do business are:

Integrity

We will be fair, honest, transparent and ethical in our conduct; everything we do must stand the test of public scrutiny.

Responsibility

We will integrate environmental and social principles in our businesses, ensuring that what comes from the people goes back to the people many times over.

Excellence

We will be passionate about achieving the highest standards of quality, always promoting meritocracy.

Pioneering

We will be bold and agile, courageously taking on challenges, using deep customer insight to develop innovative solutions.

Unity

We will invest in our people and partners, enable continuous learning, and build caring and collaborative relationships based on trust and mutual respect”” (Tata Sons Private Limited, 2019, <https://www.tata.com/about-us/tata-values-purpose>).

¹⁵⁵ Tata Sons Private Limited (2019) *Tata Values-Purpose*. Available from: <https://www.tata.com/about-us/tata-values-purpose>

Tata Code of Conduct

¹⁵⁶“This comprehensive document serves as the ethical road map for Tata employees and companies, and provides the guidelines by which the group conducts its businesses. Tata companies have consistently adhered to the values and ideals articulated by the Founder for over 150 years. The Tata Code of Conduct was first formalized by Mr. Ratan Tata. It articulates the Group's values and ideals that guide and govern the conduct of our companies as well as our colleagues in all matters relating to business. Today, the Code is a bedrock on which we base our individual, as well as leadership commitments to core Tata values. The Tata Code of Conduct outlines our commitment to each of our stakeholders, including the communities in which we operate, and is our guiding light when we are sometimes faced with business dilemmas that leave us at ethical crossroads. The Code is also dynamic in that it has been periodically refreshed in order to remain contemporary and contextual to the changes in law and regulations. However it remains unaltered at its core. Our stellar reputation and success as a business entity has been defined by the powerful commitment and adherence to the core values and principles expressed in this Code, by all our employees, directors and partners. I trust every Tata colleague and Tata company will continue to not only comply with the laws and regulations that govern our business interests around the world, but will continue to set new standards of ethical conduct that will generate deep respect and inspire emulation by others. *N Chandrasekaran, Chairman, Tata Sons, February 21, 2017*” (Tata Sons Private Limited, 2019, <https://www.tata.com/about-us/tata-code-of-conduct>).

3.7.5 BMW Group

““The Corporate Governance Code of the BMW Group

In conjunction with the adoption of the German Corporate Governance Code by the German Government Corporate Governance Code Commission, the Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft adopted a corporate

¹⁵⁶ Tata Sons Private Limited (2019) *Tata Code of Conduct*. Available from: <https://www.tata.com/about-us/tata-code-of-conduct>

governance code for the BMW Group for the first time on 3 December 2002, based closely on the German Corporate Governance Code. In line with the German Corporate Governance Code, it describes the important statutory framework provisions and the more far-reaching principles of good and responsible corporate governance applied by the BMW Group. The aim is to provide shareholders and other stakeholders of the BMW AG with a comprehensive and stand-alone document covering the corporate governance practices applied by the BMW Group. The Corporate Governance Code of the BMW Group is normally reviewed annually and revised to take account of recent developments, in particular changes in legislation, new recommendations and suggestions of the German Government Corporate Governance Code Commission”¹⁵⁷ (BMW Group, 2016, https://www.bmwgroup.com/content/dam/bmw-group-websites/bmwgroup_com/company/downloads/en/2016/Corporate%20Governance%20Codex_BMW%20AG_Januar%202016_englisch.pdf).

Corporate Governance at the BMW Group.

¹⁵⁸“For the BMW Group, corporate governance is an all-embracing topic which involves all areas of the company. Transparent reporting and a corporate governance policy aimed at the interests of stakeholders are well-established traditions within the BMW Group. Cooperation between the Board of Management and the Supervisory Board, in an atmosphere of commonly shared trust and responsibility has long been the basis for managing the BMW Group. The underlying corporate culture at BMW is based on the principles of transparency, placing trust in others and taking responsibility for one's own actions. The BMW Group believes that the recommendations and suggestions contained in the German Corporate Governance Code help to make the German financial market more attractive, in particular for international investors. The Board of Management and Supervisory Board support the recommendations and suggestions contained therein and have developed a corporate governance code for the BMW Group, taking

¹⁵⁷ BMW Group (2016) *Corporate Governance Code: Principles of Corporate Governance*. Available from: https://www.bmwgroup.com/content/dam/bmw-group-websites/bmwgroup_com/company/downloads/en/2016/Corporate%20Governance%20Codex_BMW%20AG_Januar%202016_englisch.pdf

¹⁵⁸ BMW Group (2018) *Company Portrait*. Available from; <https://www.bmwgroup.com/en/company/company-portrait.html>

account of the specific circumstances of the BMW Group”¹⁵⁹ (BMW Group, 2018, <https://www.bmwgroup.com/en/company/company-portrait.html>). The conclusion of this chapter will be covered in the following section.

3.8 Conclusion

Today investors now look for organizations that have good corporate governance practices before investing their money. Organizations that practice good corporate governance practices gain a good reputation in the marketplace as an ethical business. Corporate governance helps to map the way forward the organization should follow in order to achieve its vision and mission ethically and responsibly. In general *corporate governance guidelines promote positive behavior* and they help boost the quality of decision-making by the board. It can be concluded that the characteristics that are associated with an organization that practices good corporate governance include: accountability, fairness and legal compliance.

3.9 Review questions

- (1) Define the term ‘corporate governance’?
- (2) Discuss the two types of corporate governance stakeholders. Outline the traits and or principles of effective corporate governance?
- (3) Describe in detail what ‘compensation governance’ encompasses?
- (4) Outline at least three examples of corporate governance rules & statements from selected leading global organizations of your choice?

¹⁵⁹ BMW Group (2018) *Company Portrait*. Available from; <https://www.bmwgroup.com/en/company/company-portrait.html>

Chapter 4: Globally recognized board of directors associations

After reading this chapter you should be able to:

- Describe the benefits of being a corporate director association member.
- Outline the various globally recognized corporate director associations located in North America.
- List the various globally recognized corporate director associations located in Europe and Oceania.
- Explain the various services offered by a corporate association. Describe the history of some of the globally recognized director associations.

4.1 Introduction

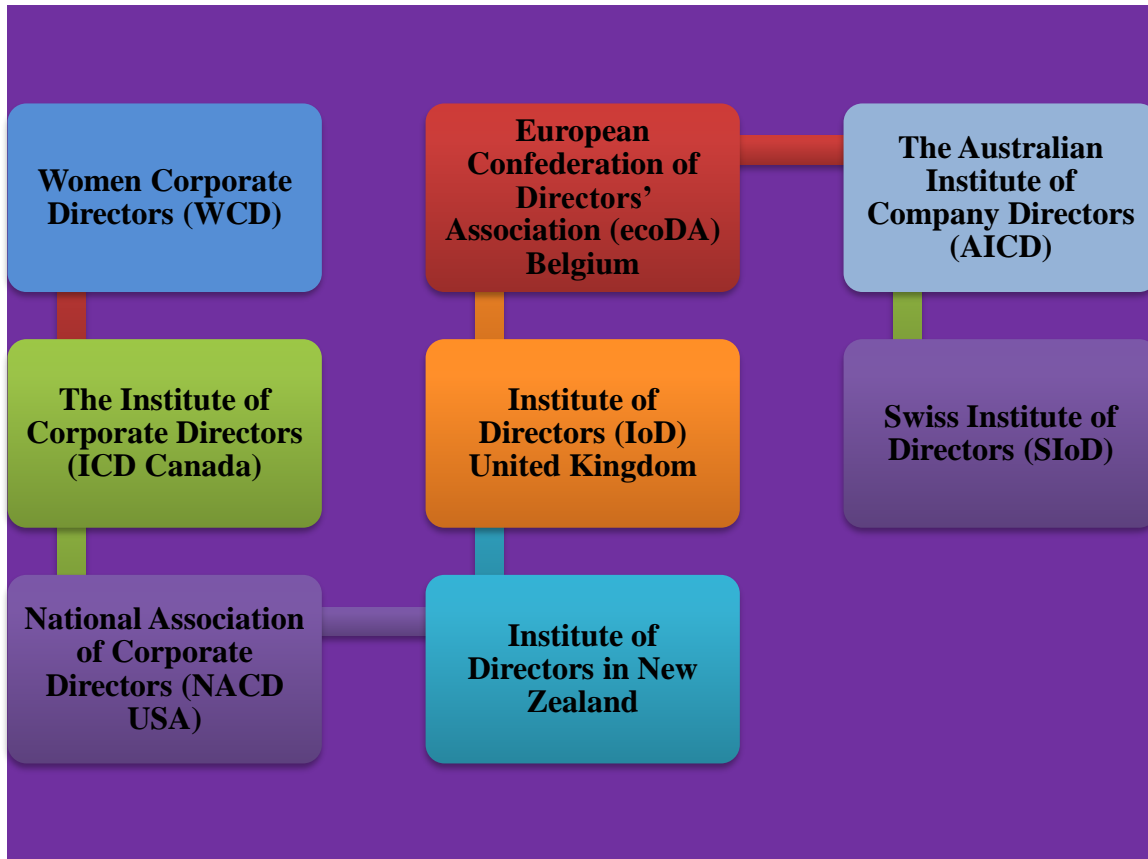
Business leaders who want to be respected by the people they lead must first earn their respect through practicing exemplary leadership. Today there are now many professional corporate director associations that aim to educate, coach and inspire directors of organizations so that they may practice acceptable leadership standards at the workplace that enable them to be highly respected by the people they lead. Change has become the norm in today's business world thus corporate directors need to consistently keep up-to-date with the latest business trends in business and one simple way of doing so is by becoming a full member of a globally recognized corporate director association. Corporate director associations play a critical role in societal development as they help to strengthen a corporate governance rules compliance culture amongst business leaders in a way that benefits society. In addition corporate director associations help to instill strong work ethics and a culture of being innovative in their members. There are various globally recognized board of directors associations operating in different parts of the world today and these will be discussed in the following section.

4.2 Some of the globally recognized board of directors associations

There are many corporate director associations that are located in different parts of the world and they all seek to promote good corporate governance, integrity, professional development and so

on. The majority of director associations are not-for-profit making organizations. Some of the globally recognized director associations with good-to-great leaders are depicted in Figure 4.1 below.

Figure 4.1 Examples of globally recognized director associations



Source: Modified: (WomenCorporateDirectors Foundation, 2018, <https://www.womencorporatedirectors.org>; Institute of Corporate Directors Canada, 2018, <http://www.icd.ca/>; National Association of Corporate Directors, 2018, <https://www.nacdonline.org/>; European Confederation of Directors' Associations, 2018, <http://ecoda.org>; Institute of Directors, 2018, www.iod.com/; Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/>; Australian Institute of Company Directors, 2018, <http://aicd.companydirectors.com.au/>; Swiss Institute of Directors, 2018, <https://www.siod.ch/>).

4.2.1 Women Corporate Directors (WCD)

¹⁶⁰According to the WomenCorporateDirectors (2017) the Women Corporate Directors (WCD) is the world's largest membership organization and community of women corporate board directors. A 501(c)(3) foundation, WCD is a trusted community of directors serving on more than 8,500 public and private boards around the world. WCD supports its thousands of global members in connecting with peers and advancing visionary corporate governance. Through events, publications, and tools addressing the latest news and trends in business and governance, WCD inspires and educates board leaders—and raises the bar for board service in public and large private companies globally. Over the past 17 years, WCD has been instrumental in training women for board service, providing board opportunities, and facilitating introductions to nominating committee chairs around the world. The result has been the placement of over 500 women on corporate boards, private boards, and advisory boards¹⁶¹ (WomenCorporateDirectors, 2017, www.womencorporatedirectors.org/).

4.2.2 The Institute of Corporate Directors (ICD Canada)

According to the Institute of Corporate Directors (2018) The Institute of Corporate Directors strives to lead and demonstrate the value of excellence in directorship and enlightens directors to anticipate, influence, and meet boardroom challenges. Our members receive exclusive benefits that help them to perform their director role effectively and make an appropriate contribution in the boardroom. The ICD offers highly regarded professional development programs that provide flexible director education and learning opportunities including our industry-recognized ICD.D designation for graduates of the ICD-Rotman Directors Education Program. We also offer a year-round continuing education program, where members benefit from informal learning sessions, networking events and local chapter support. Members gain access to world class resources such as timely information on current and emerging governance

¹⁶⁰ WomenCorporateDirectors Foundation (2018) *About WCD*. Available from:

https://www.womencorporatedirectors.org/WCD/About/WCD/About_WCD/About_US.aspx?hkey=5f91a9cb-b0e1-4be5-9aeb-25362776555f

¹⁶¹ WomenCorporateDirectors Foundation (2018) *About WCD*. Available from:

https://www.womencorporatedirectors.org/WCD/About/WCD/About_WCD/About_US.aspx?hkey=5f91a9cb-b0e1-4be5-9aeb-25362776555f

[issues and best practices](#), and the [ICD Directors Register](#), a complimentary board matching and referral service. We also fulfil an important need that our members look to us to provide – a strong, unified voice for the director community. Through our [advocacy](#), we represent directors and their interests, and develop [thought leadership](#) for and among our members¹⁶².

A renewed strategy

Our Purpose is a necessary and significant undertaking. Realizing it requires a strategy centred on leadership. To improve trust and confidence in Canadian organizations by developing and activating Directors, we will: Build operational excellence by aligning our Purpose of improving trust and confidence in Canadian organizations with our strategies and our talent. This means fostering habits of learning, collaboration and professionalism, and equipping our people with the right skills, tools, processes and systems so that we achieve our goals. Deliver dynamic education by continuing to invest in the best understanding of what constitutes board leadership and what makes effective boards. This also means continuing to design learning programs that develop people who contribute to board leadership, and delivering that learning through highly responsive and flexible systems. Enable local leadership by creating full partnerships with our Chapters and equipping them with the resources necessary to attract and engage local contributors to board leadership who are personally committed to our shared ICD Purpose. Deliver excellent member and customer experience. This means knowing the needs and concerns of our members and customers, and delivering a valuable offering through an outstanding experience. Continue to be the voice to and for Directors. Going forward, this will mean gathering and synthesizing insights from the board leaders we touch, developing relevant and meaningful points of view, and amplifying these positions to make a meaningful impact on Canada.

Advocacy

At the ICD, we have an opportunity to meet an important need that our members look to us to provide – a strong, unified voice for the director community. Our role is to represent directors and their interests and develop [thought leadership](#) for and among our members. To best represent

¹⁶² Institute of Corporate Directors Canada (2018) *Advocacy*. Available from: <http://www.icd.ca/About-the-ICD/What-We-Do/Advocacy.aspx>

directors with the public, regulators, politicians, stakeholders and the media, we engage in open forums and direct communication with our members to ensure that we advocate from the director perspective, set higher standards of director excellence, and advance corporate governance in Canada and abroad. Furthermore, the ICD helps develop best practices on director issues, frameworks, and recommended approaches. We also embark on research papers, conduct surveys and more, in efforts to aid directors in their roles (Institute of Corporate Directors Canada, 2018, <http://www.icd.ca/getmedia/4bd8c796-691a-42a1-b84b-c41f49b96ace/Purpose-strategy.pdf.aspx>).

4.2.3 National Association of Corporate Directors (USA)

Advancing Exemplary Board Leadership

According to the National Association of Corporate Directors (2018) *Advancing Exemplary Board Leadership*. NACD empowers more than 20,000 directors to lead with confidence in the boardroom. As the recognized authority on leading boardroom practices, NACD helps boards strengthen investor trust and public confidence by ensuring that today's directors are well prepared for tomorrow's challenges. World-class boards join NACD to elevate performance, gain foresight, and instill confidence. Fostering collaboration among directors, investors, and governance stakeholders, NACD has been setting the standard for responsible board leadership for more than 40 years¹⁶³.

Mission

NACD elevates board performance by providing board members with practical insights through world-class education, leading-edge research, and an ever-growing network of directors.

Vision

NACD aspires to a world where corporate directors are recognized by all stakeholders as trusted stewards of long-term value creation.

¹⁶³ National Association of Corporate Directors (2018) *About*. Available from: <https://www.nacdonline.org/about>

Director Education

In the spirit of helping corporate directors foster boardroom cultures that are focused on continuous improvement, long-term value creation, and strengthening investor trust and public confidence, NACD has established the standard for director education. Using its proprietary [director education framework](#), NACD's standard creates the most comprehensive director knowledge pathway—from awareness to insights to mastery (National Association of Corporate Directors, 2018, <https://www.nacdonline.org/about>).

4.2.4 European Confederation of Directors' Association (ecoDA) Belgium

About ecoDa

According to European Confederation of Directors' Associations (2018) The European Confederation of Directors' Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium. Through its national institutes of directors (the main national institutes existing in Europe), ecoDa represents around 55,000 board directors from across the EU. ecoDa's member organisations represent board directors from the largest public companies to the smallest private firms, both listed and unlisted¹⁶⁴.

ecoDa's mission is

- 1). to promote the role of directors, to develop professionalism and European governance standards by acting as a standing body where national experiences in terms of corporate governance are shared and discussed, by developing recommendations and education programmes in complement with those developed by its members;
- 2). to influence the European decision-making process related to corporate governance by reacting directly to the European institutions or by pro-actively taking initiatives of actions aimed at generating European debate and reflection on corporate governance;
- 3). to provide services to its members, mainly by providing information regarding relevant European issues;

¹⁶⁴ European Confederation of Directors' Associations (ecoDa) (2018) *About ecoDA*. Available from:

<http://ecoda.org/about-ecoda/>

4). to facilitate at a European level the creation and the development of national director institutes dealing with corporate governance and attract new members in order to strengthen the European representativeness of the Confederation.

Our Values

ecoDa embraces the following values: professionalism, integrity and collaborative approach while encouraging excellence in Corporate Governance¹⁶⁵.

Organization

The ecoDa Board comprises 13 board members, all of them being involved in their National Institute of Directors either as chairperson/CEOs or as board members. ecoDa normally holds its Annual General Meeting in April. ecoDa has 5 Standing Committees, 2 Board Committees and ad hoc Working Groups which all report to the ecoDa Board¹⁶⁶ (European Confederation of Directors' Associations, 2018, <http://ecoda.org>).

4.2.5 Institute of Directors (IoD United Kingdom)

About

¹⁶⁷According to the Institute of Directors (IoD) (2018) The Institute of Directors (IoD) was founded in 1903 and within three years we were awarded a Royal Charter to support, represent and set standards for business leaders nationwide. We remain deeply proud of our Royal Charter and it stays at the forefront of everything we do as an organisation. You will find us in the heart of all major cities and we continue to represent your point of view as a business leader both locally and nationally. Our objective is to ensure your views are taken into account when the government is reviewing policy, legislation or seeking the opinions of the wider business community. Membership will equip you with a range of resources - including access to business information, training, professional expertise, networking opportunities and flexible working spaces - all of which are designed to help you strengthen and build on your own success. Our

¹⁶⁵ European Confederation of Directors' Associations (ecoDa) (2018) *Our Values*. Available from: <http://ecoda.org/about-ecoda/our-values/>

¹⁶⁶ European Confederation of Directors' Associations (ecoDa) (2018) *Organization*. Available from: <http://ecoda.org/about-ecoda/organization/>

¹⁶⁷ Institute of Directors (2018) *About*. Available from: <https://www.iod.com/about>

renowned Chartered Director qualification and training portfolio will provide you with the platform to hone your skill set and reach your full potential as a business leader. There is little telling what the coming years will hold for UK business. However there is one certainty - the IoD will maintain an unwavering commitment to support our members, encourage entrepreneurial activity and promote responsible business practice for the benefit of our 30,000+ members and the business community as a whole. The IoD is charged with promoting good corporate governance for UK business. As such, we strive to ensure our own governance complies with the highest standards. Here's how our structure works¹⁶⁸ (Institute of Directors, 2018, www.iod.com/about).

4.2.6 Institute of Directors in New Zealand

Connecting, equipping and inspiring

According to the Institute of Directors in New Zealand (2018) The Institute of Directors in New Zealand connects, equips and inspires its more than 9,000 members, to add value across New Zealand business and society. Through thought leadership, our extensive network, professional governance courses, events and resources. The IoD in New Zealand began over 40 years ago as a division of the Institute of Directors in the UK. In 1989 the Institute of Directors in New Zealand (Inc) adopted its own constitution and became a separate legal entity. During the last decade, membership has grown significantly¹⁶⁹.

Our purpose

Driving excellence in governance

Our vision

To be the world class professional body at the heart of New Zealand's governance network.

Our mission

To inspire and equip people in governance to add value across New Zealand business and society (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/About-us>).

¹⁶⁸ Institute of Directors (2018) *About*. Available from: <https://www.iod.com/about>

¹⁶⁹ Institute of Directors in New Zealand (2018) *About Us*. Available from: <https://www.iod.org.nz/About-us>

4.2.7 The Australian Institute of Company Directors (AICD)

According to the Australian Institute of Company Directors (2018) Strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society¹⁷⁰. The Australian Institute of Company Directors is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy.

Who we are and what we do

Our history, mission, vision and current goals.

Vision

To strengthen society through world-class governance.

Mission

To be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society.

What we do

The Australian Institute of Company Directors is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership of more than 43,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

Organisational structure

We are a national organisation with seven state and territory divisions. Our national Board, which consists of up to 12 directors, is our governing body. Our Board is comprised of not less than two and not more than four National directors, seven Division directors, and a Chief

¹⁷⁰ Australian Institute of Company Directors, 2016, *About*, Sydney, <http://aicd.companydirectors.com.au/about>, (accessed 4 Dec 2018).

Executive Officer who may be appointed as a Director by the Board. The Board appoints the chair. We have a national office in Sydney, Australia, offices in all Australian states, the ACT and representation in Darwin. Members are served by their state division and a state manager, and that office reports to the national office on the effective running of the division. Each division has a Council of up to 10 representatives, with up to six councillors elected by members from that state and up to four appointed by the Council. Our national office is structured to support our state divisions. It delivers core education courses and events, develops policy on director issues, publishes Company Director magazine and good practice books for directors, and represents the views of members nationally¹⁷¹.

History

The origins of the Australian Institute of Company Directors can be traced back to the United Kingdom's [Institute of Directors](#) (IoD), formed by Royal Charter in 1906. Branches of the IoD appeared in the Australian states in the 1960s. These branches were amalgamated in January 1971 under the Institute of Directors in Australia, an autonomous body affiliated with the IoD in the United Kingdom. The challenge of servicing state branches saw the emergence of the Company Directors Association of Australia in 1982. The two bodies merged on 1 January 1990 to form the Australian Institute of Company Directors.

International associations

We are a founding member of the Global Director Development Circle, a group now known as the Global Network of Directors Institutes. Membership of GNDI provides us with a forum to demonstrate the leadership of Australian directors internationally, and to share expertise in corporate governance and professional director development. GNDI is comprised of membership organisations for directors from Australia, the UK, US, Canada, Malaysia, New Zealand, Brazil and South Africa.

¹⁷¹ Australian Institute of Company Directors, 2016, *About*, Sydney, <http://aicd.companydirectors.com.au/about>, (accessed 4 Dec 2018).

About our governance

Corporate Governance of our organisation and members' code of conduct. We are dedicated to making a difference to the quality of directorship and seek to promote excellence in governance. As such, we are committed to ensuring that we lead by example in how our organisation is governed. Every year, we run several hundred programs and courses that convey to participants the theory of Corporate Governance and how to apply it in practice. The theme of effective governance – whether it is the systems, processes or relationships that define the practice – also underpins the information resources we provide and many of the events that we conduct around the country¹⁷² (Australian Institute of Company Directors, 2018, <http://aicd.companydirectors.com.au/about>).

4.2.8 Swiss Institute of Directors (SIOD)

Purpose

According to the Swiss Institute of Directors (SIOD) (2018) The purpose of the Association is to enable the targeted sharing of knowledge and experience between active members of boards of directors of companies and organisations in Switzerland and associations; the development and review of best practice governance guidelines for various economic sectors; the representation of Swiss board practice in international associations, governance course certification and accreditation in Switzerland; and the development of other board-related areas that are not already offered or planned by the Board Foundation. The Association is a member of the Global Network of Director Institutes. The Association uses the services of the Board Foundation and the Swiss Board Institute in board research, BoD training and BoD services¹⁷³ (Swiss Institute of Directors, 2018, <https://www.siod.ch/en/about-us/purpose>). The conclusion of this chapter will be covered in the next section.

¹⁷² Australian Institute of Company Directors, 2016, *About*, Sydney, <http://aicd.companydirectors.com.au/about>, (accessed 4 Dec 2018).

¹⁷³ Swiss Institute of Directors (2018) *Purpose*. Available from: <https://www.siod.ch/en/about-us/purpose>

4.3 Conclusion

Leaders must ensure that they earn the respect of the people they lead through practicing exemplary leadership. Nowadays there are now many professional corporate director associations that aim to educate, coach and inspire directors of organizations so that they may practice acceptable leadership standards at the workplace that enable them to be highly respected by the people they lead. Most of the corporate director associations that are located in different parts of the world seek to promote good corporate governance, integrity and professional development. Some of the director associations aim to empower and uplift women at the workplace through training and development programs. It can be concluded that board of directors who are members of corporate director associations tend to enjoy numerous advantages that empower them to enhance their performance as directors.

4.4 Review questions

- (1) Discuss the benefits of being a corporate director association member?
- (2) Outline the various globally recognized corporate director associations located in North America?
- (3) Identify the various globally recognized corporate director associations located in Europe and Oceania?
- (4) Describe the various services offered by a corporate association? Describe the history of some of the globally recognized director associations?

Chapter 5: Liability, conflict of interest & the dismissal of a board of director

After reading this chapter you should be able to:

- Explain the meaning of the terms ‘conflict of interest’ and ‘dismissal’.
- Identify the various conflict of interest policies for board of directors.
- Provide a typical example of an organization of your choice its corporate governance code ‘Conflict of Interest for its Board & the Supervisory Board’. Describe the reasons why an organization can dismiss a board member.
- Describe the meaning of ‘term limits’ of boards. Describe in-depth the interlocking of multiple board memberships held by a single board of director. Explain what is the meaning of the term ‘liability’ when it comes to boards.

5.1 Introduction

In general board of directors’ have a legal obligation to adhere to their fiduciary duties of care, loyalty and obedience at the workplace. When board of directors’ are appointed in an organization they are required to only serve the interests of the organization and its shareholders in good faith. In certain instances some directors intentionally or unintentionally end up acting in a manner that makes them breach the conflict of interest policy of the organization. The fact that directors can intentionally or unintentionally be in conflict of interest with the organization has made the subject topic a major concern for organizations when recruiting board members and implementing director training programs. When board of directors fail to honor their legal obligations of adhering to their fiduciary duties during their term of appointment as officers and directors of an organization they may be dismissed or removed from the board. During the 2008-2011 global economic recession period several organizations dismissed their board members for failing to uphold their fiduciary duties of care, loyalty and obedience. Today some of the organizations in their efforts to avoid situations of dismissing board of directors they now implement term limits for board member appointments on a regular basis. The meaning of the term conflict of interest and dismissal will be covered in the following section.

5.2 Definition of the terms ‘conflict of interest’ and ‘dismissal’

There are numerous acceptable definitions that have been developed over the past several years by academics, employment relations experts and business management professionals to explain the meaning of the term conflict of interest and dismissal in a simplified way. The term ‘*conflict of interest*’ in the context of this textbook is whereby an individual officer and director employed by an organization implements decisions and actions that enable them to pursue their own personal desires or interests to create opportunities for themselves whilst simultaneously disadvantaging the organization and its shareholders’ best interests. *Dismissal* in the context of this textbook refers to the termination of a contract of employment of an officer and director of an organization in order to remove them from the board with immediate effect that is soon after a formal dismissal letter has been issued to the board member. The importance of avoiding a conflict of interest by board of directors will be discussed in the following section.

5.2.1 Directors are required to avoid conflict of interest

Generally almost each and every country in the world has a Companies Act and Articles of Association that clearly stipulates various issues relating to the avoiding conflict of interest by company directors. ¹⁷⁴According to the United Kingdom Companies Act, 2006 Section 175, Legislation.gov.uk (2018:80) *Duty to avoid conflicts of interest*:

(1) A director of a company must avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company.

(2) This applies in particular to the exploitation of any property, information or opportunity (and it is immaterial whether the company could take advantage of the property, information or opportunity).

¹⁷⁴ United Kingdom Legislation.gov.uk (2018) *Companies Act of 2006 Section 175: Duty to Avoid Conflicts of Interest*. Available from: http://www.legislation.gov.uk/ukpga/2006/46/pdfs/ukpga_20060046_en.pdf [Accessed 2018, 19 January] © Government Legislation.gov.uk, 2018. This information is licensed under the Open Government Licence v3.0. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> OGL v3.0

(3) This duty does not apply to a conflict of interest arising in relation to a transaction or arrangement with the company.

(4) This duty is not infringed— (a) if the situation cannot reasonably be regarded as likely to give rise to a conflict of interest; or (b) if the matter has been authorised by the directors.

(5) Authorisation may be given by the directors— (a) where the company is a private company and nothing in the company’s constitution invalidates such authorisation, by the matter being proposed to and authorised by the directors; or (b) where the company is a public company and its constitution includes provision enabling the directors to authorise the matter, by the matter being proposed to and authorised by them in accordance with the constitution¹⁷⁵ (United Kingdom Companies Act, 2006 Section 175, Legislation.gov.uk, 2018:80, <http://www.legislation.gov.uk/ukpga/>). The next section will cover in-depth the conflict of interest for board of directors.

5.3 Conflict of interest policies for board of directors

Conflict and change are inevitable thus they will both be part of every human being’s life and that of an organization’s life. Therefore it is necessary for each and every organization to have a conflict of interest policy that clearly guides the actions and decision-making processes of the organization’s executive management, officers and directors in a manner that does not unfairly disadvantage it. *“Why policies are important.* Policies serve several important functions: (1) Communicate values and expectations for how things are done at your organization, (2) Keep the organization in compliance with legislation and provide protection against employment claims, (3) Document and implement best practices appropriate to the organization, (4) Help management to make decisions that are consistent, uniform and predictable, (5) Protect

¹⁷⁵ United Kingdom Legislation.gov.uk (2018) *Companies Act of 2006 Section 175: Duty to Avoid Conflicts of Interest*. Available from: http://www.legislation.gov.uk/ukpga/2006/46/pdfs/ukpga_20060046_en.pdf [Accessed 2018, 19 January] © Government Legislation.gov.uk, 2018. This information is licensed under the Open Government Licence v3.0. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> OGL v3.0

individuals and the organization from the pressures of expediency”¹⁷⁶ (HR Council of Canada, 2018, <http://hrcouncil.ca/>). ¹⁷⁷Conflict of interest has become the norm in most of the boards nowadays while on the other hand conflicts of interest enormously contribute towards compromising the ethics of organizations via misguiding their decision making and through the consistent achievement of organizational performance results that significantly tarnish the image and reliability of boards. Generally most of the organizations tend to make it mandatory for board of directors to read and sign a conflict of interest policy soon after they have been offered a board of director job position. In addition some of the organizations also tend to offer their board of directors conflict of interest declaration opportunities immediately before the commencement of board meetings in order for them to accurately and honestly declare any conflicts of interest they may be having with the issues on the agenda of the board meeting (Source: Cossin, D. and Hongze Lu, 2020, “The Four Tiers of Conflict of Interest Faced By Board Directors”, IMD - International Institute for Management Development, www.imd.org). “Conflict of interest policies normally specify how directors should avoid conflicts of interest. This narrow focus only scratches the surface, given the scope, responsibilities and dynamics of decision making in the boardroom. In countries with relatively strong shareholder rights, such as in the US, directors are expected to be accountable to shareholders. In many other countries, directors have a duty to the company, not to shareholders. In Germany, for example, the company is considered distinct from the collective shareholders, which prevents shareholders from claiming that the directors have a duty toward them first and foremost” (Source: Cossin, D. and Hongze Lu, 2020, “The Four Tiers of Conflict of Interest Faced By Board Directors”, IMD - International Institute for Management Development, www.imd.org). Some of the typical examples of situations that cause conflict amongst board members will be covered in the following section.

¹⁷⁶ HR Council of Canada (2018) *HR Policies & Employment Legislation*. Available from: <http://hrcouncil.ca/hr-toolkit/policies-guideline.cfm>

¹⁷⁷ Source: Cossin, D. and Hongze Lu, 2020, “The Four Tiers of Conflict of Interest Faced By Board Directors”, IMD - International Institute for Management Development, www.imd.org

5.4 Typical examples of situations that cause conflict of interest by board of directors

There are several causes of conflict of interest by the officers and directors of an organization. “The four tiers of conflicts of interest. A *tier-I* conflict is an actual or potential conflict between a board member and the company” (Source: Cossin, D. and Hongze Lu, 2020, “The Four Tiers of Conflict of Interest Faced By Board Directors”, IMD - International Institute for Management Development, www.imd.org). Notably a board of director has the fiduciary duty to refrain from abusing his or her job title due to the fact that they make high level strategic decisions in the organization and this also requires them to consistently act in a such a manner that upholds the interests of the major stakeholders (for instance shareholders or the community) first instead of putting their self interests at the forefront. Typical examples of conflicts of interest involve the following: (1) excessive compensation packages, (2) committing fraudulent activities such as illegally taking personal ownership of the assets of the organization, (3) starting personal business projects that compete for the same customers and business opportunities with the organization, (4) paying less attention to the day-to-day board of director duties and responsibilities and so on (Source: Cossin, D. and Hongze Lu, 2020, “The Four Tiers of Conflict of Interest Faced By Board Directors”, IMD - International Institute for Management Development, www.imd.org).¹⁷⁸ “*Tier-II* conflicts arise when a board member’s duty of loyalty to stakeholders or the company is compromised. This would happen when certain board members exercise influence over the others through compensation, favors, a relationship, or psychological manipulation. A *tier-III* conflict emerges when the interests of stakeholder groups are not appropriately balanced or harmonized. When a board’s core duty is to care for a particular set of stakeholders, such as shareholders, all rational and high-level decisions are geared to favor that particular group, although the concerns of other stakeholders may still be recognized. *Tier-IV* conflicts are those between a company and society and arise when a company acts in its own interests at the expense of society. The doctrine of maximizing profitability may be used as justification for deceiving customers, polluting the environment, evading taxes, squeezing suppliers, and treating employees as commodities. Companies that

¹⁷⁸ Source: Cossin, D. and Hongze Lu, 2020, “The Four Tiers of Conflict of Interest Faced By Board Directors”, IMD - International Institute for Management Development, www.imd.org

operate in this way are not contributors to society. Instead, they are viewed as value extractors” (Source: Cossin, D. and Hongze Lu, 2020, “The Four Tiers of Conflict of Interest Faced By Board Directors”, IMD - International Institute for Management Development, www.imd.org). An example of a conflict of interest corporate governance code an organization can adopt is covered in the next section.

5.5 Example: BMW Group Corporate Governance Code on Conflict of Interest for its Board of Management & the Supervisory Board

“Basic Information about the BMW Group

The designation BMW Group comprises Bayerische Motoren Werke Aktiengesellschaft (abbreviated to BMW AG or hereinafter also referred to as "Company") together with its affiliated companies. BMW AG was founded in 1916. The Company’s registered office is located in Munich and the Company is registered with the District Court of Munich (Registrar of Companies) under the number HRB 42243. The object of the Company is primarily the manufacture and sale of engines and all vehicles equipped with engines. As a German stock corporation (Aktiengesellschaft) governed by German stock corporation law BMW AG has three organs: The Annual General Meeting (Hauptversammlung), the Supervisory Board (Aufsichtsrat) and the Board of Management (Vorstand). Their powers and duties are set out in the German Stock Corporation Act (Aktiengesetz) and BMW AG's Articles of Association, the full text of which is published on the BMW Group's website. As the Company's owners, the shareholders exercise their rights in the Annual General Meeting”¹⁷⁹ (BMW Group, 2016:3)

“The Board of Management of BMW AG

Conflicts of interest

¹⁷⁹ BMW Group (2016) *Corporate Governance Code: Principles of Corporate Governance*. Available from: https://www.bmwgroup.com/content/dam/bmw-group-websites/bmwgroup_com/company/downloads/en/2016/Corporate%20Governance%20Codex_BMW%20AG_Januar%202016_englisch.pdf

Members of the Board of Management are bound by the enterprise's best interests. When making their decisions they must not pursue any personal interests, are subject to a comprehensive prohibition to compete during their work for the group and must not exploit for themselves business opportunities to which the group is entitled. Members of the Board of Management and employees may not, in connection with their work, demand or accept from third parties unlawful advantages for themselves or for any other person, nor grant third parties unlawful advantages.

All members of the Board of Management must disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management thereof. All transactions between the enterprise and members of the Board of Management (including related parties) must comply with standards customary in the sector. The Supervisory Board represents the Company in transactions with members of the Board of Management. Important transactions with persons closely associated with a member of the Board of Management require the approval of the Supervisory Board. Members of the Board of Management may only undertake ancillary activities, in particular supervisory board mandates outside the BMW Group, with the approval of the Supervisory Board's Personnel Committee¹⁸⁰.

The Supervisory Board of BMW AG

Conflicts of interest

Each member of the Supervisory Board is bound by the enterprise's best interests. The members of the Supervisory Board may not pursue personal interests in their decisions or take advantage of business opportunities intended for the enterprise. Each member of the Supervisory Board will inform the Supervisory Board of any conflicts of interest which may result from a consultant or directorship function with clients, suppliers, lenders or other third parties. In its report, the Supervisory Board will inform the Annual General Meeting of any conflicts of interest which have occurred and how they were handled. Material conflicts of interest and those which are not

¹⁸⁰ BMW Group (2016) *Corporate Governance Code: Principles of Corporate Governance*. Available from: https://www.bmwgroup.com/content/dam/bmw-group-websites/bmwgroup_com/company/downloads/en/2016/Corporate%20Governance%20Codex_BMW%20AG_Januar%202016_englisch.pdf

merely temporary in nature will result in the termination of the mandate of the relevant Supervisory Board member. Advisory and other service agreements and contracts for work between BMW AG and a member of the Supervisory Board require the approval of the Supervisory Board's Personnel Committee” (BMW Group, 2016:16). The following section will cover in-depth why board of directors can be dismissed.

5.6 Why dismiss a board member?

Dismissal or the termination of a contract of employment must always be the last resort when there is conflict between an organization and its board of directors. The dismissal of any employee in any organization in the world is closely guarded by the Labor or Employment Relations Act including the Companies Act thus organizations need to consistently seek legal advice from labour law experts or attorneys when they want to dismiss a board of director. The Labour or Employment Relations laws of most of the countries often stipulate that organizations must first make an effort of offering some form of support to the employee (*in this case the board member*) such as training or re-designing their job description and only when such efforts have failed to achieve the desired behavior or results only then can the organization implement the dismissal process. In general organizations dismiss board members when they breach their contract of employment, for being undisciplined at the workplace, and when there is a conflict of interest.

There are various scenarios that may lead to the dismissal of a board member or in certain instances the entire board. Some of the scenarios why board of directors may be dismissed are discussed in-depth in this section. ¹⁸¹According to Charan (2012) but before the executive vice president of the company’s largest division could finish his sentence, let alone the full presentation he had painstakingly prepared for the board, his least favorite director attacked. “Three percent? You ought to make at least six percent,” the director snapped. “Sounds to me like you’re sandbagging.” The tension in the room rose at the accusation. The rest of the board fell silent as the executive gathered his composure and interrupted his presentation to explain his rationale for the target. The other directors had enormous respect for the EVP, and considered

¹⁸¹ Charan, R. (2012) *Dealing with Dysfunctional Directors*. Available from: <https://chiefexecutive.net/dealing-with-dysfunctional-directors/>

him a likely successor to the CEO. Yet they let a fellow director to talk down to him and put him on the defensive. Repeatedly. Such interactions are increasingly common in boardrooms. *What to Do?* The solution to dealing with dysfunctional directors is, bluntly, to remove them from the board. That's easier said than done. For the same reasons directors won't intervene during board meetings, they won't vote out a dysfunctional director. A personal vote against a director under such circumstances is likely to create very hard feelings and sometimes even animosity in this close-knit circle. There is no graceful way to get a director off the board. Sometimes it is done, but clumsily. A U.S. company that was at the top in its industry had a foreign director who had been CEO of a similar company overseas. The director had a habit of pontificating on issues the other directors found irrelevant, and they found his philosophizing overly time-consuming. Eventually, the board mustered the courage to force him to step down. The director wept when he was voted out, and shortly thereafter he sent the directors an angry letter, pointing out that they had disregarded the value of his vast European network and deep business knowledge. It doesn't always have to end that way. One CEO spoke to a dysfunctional director about his behavior at meetings. The director completely changed his behavior, and the CEO says he is now one of the best directors on the board. However, such occurrences are rare. That is why it's so important to select strong lead directors to carry out the sense of the board. Moreover, best practice requires a robust evaluation process to create a world-class board that can help guide a company in times of stress and rapid change¹⁸² (Charan, 2012, <https://chiefexecutive.net/dealing-with-dysfunctional-directors/>). The guidelines in the Companies Act about resolutions at a board meeting to remove a director will be discussed in the following section.

5.6.1 Resolutions at a board meeting to remove a director

In most of the countries the Companies Act clearly stipulates the guidelines that must be followed to make a resolution in a board meeting to remove a director from office.¹⁸³ According

¹⁸² Charan, R. (2012) *Dealing with Dysfunctional Directors*. Available from: <https://chiefexecutive.net/dealing-with-dysfunctional-directors/>

¹⁸³ United Kingdom Legislation.gov.uk (2018) *Companies Act of 2006 Section 168: Resolution to Remove Director*. Available from: http://www.legislation.gov.uk/ukpga/2006/46/pdfs/ukpga_20060046_en.pdf [Accessed 2018, 19 January] © Government Legislation.gov.uk, 2018. This information is licensed under the Open Government Licence v3.0. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> OGL v3.0

to the United Kingdom Companies Act, 2006 Section 168, Legislation.gov.uk (2018:77)
Resolution to remove director:

(1) A company may by ordinary resolution at a meeting remove a director before the expiration of his period of office, notwithstanding anything in any agreement between it and him.

(2) Special notice is required of a resolution to remove a director under this section or to appoint somebody instead of a director so removed at the meeting at which he is removed.

(3) A vacancy created by the removal of a director under this section, if not filled at the meeting at which he is removed, may be filled as a casual vacancy.

(4) A person appointed director in place of a person removed under this section is treated, for the purpose of determining the time at which he or any other director is to retire, as if he had become director on the day on which the person in whose place he is appointed was last appointed a director.

(5) This section is not to be taken— (a) as depriving a person removed under it of compensation or damages payable to him in respect of the termination of his appointment as director or of any appointment terminating with that as director, or (b) as derogating from any power to remove a director that may exist apart from this section (United Kingdom Companies Act, 2006 Section 168, Legislation.gov.uk, 2018:77, <http://www.legislation.gov.uk/ukpga/>).

5.6.2 A director's right to appeal or protest a decision of dismissal

When a resolution to dismiss a board of director has been made the director in question by law he/she has the right to protest such a decision and in most of the countries located in different parts of the world the Companies Act clearly highlights this fact. ¹⁸⁴According to the United

¹⁸⁴ United Kingdom Legislation.gov.uk (2018) *Companies Act of 2006 Section 169: Director's Right to Protest Against Removal*. Available from: http://www.legislation.gov.uk/ukpga/2006/46/pdfs/ukpga_20060046_en.pdf [Accessed 2018, 19 January] © Government Legislation.gov.uk, 2018. This information is licensed under the Open Government Licence v3.0. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> OGL v3.0

Kingdom Companies Act, 2006 Section 169, Legislation.gov.uk (2018:77) *Director's right to protest against removal:*

(1) On receipt of notice of an intended resolution to remove a director under section 168, the company must forthwith send a copy of the notice to the director concerned.

(2) The director (whether or not a member of the company) is entitled to be heard on the resolution at the meeting.

(3) Where notice is given of an intended resolution to remove a director under that section, and the director concerned makes with respect to it representations in writing to the company (not exceeding a reasonable length) and requests their notification to members of the company, the company shall, unless the representations are received by it too late for it to do so— (a) in any notice of the resolution given to members of the company state the fact of the representations having been made; and (b) send a copy of the representations to every member of the company to whom notice of the meeting is sent (whether before or after receipt of the representations by the company).

(4) If a copy of the representations is not sent as required by subsection (3) because received too late or because of the company's default, the director may (without prejudice to his right to be heard orally) require that the representations shall be read out at the meeting.

(5) Copies of the representations need not be sent out and the representations need not be read out at the meeting if, on the application either of the company or of any other person who claims to be aggrieved, the court is satisfied that the rights conferred by this section are being abused.

(6) The court may order the company's costs (in Scotland, expenses) on an application under subsection (5) to be paid in whole or in part by the director, notwithstanding that he is not a party to the application (United Kingdom Companies Act, 2006 Section 169, Legislation.gov.uk, 2018:77, <http://www.legislation.gov.uk/ukpga/>). Information about term limits will be covered in the following section.

5.7 Term Limits

Some of the employment contracts have different time durations or limits such as 1-12 months, 2-5 years while others are permanent contracts. When organizations are fully knowledgeable of the fact that a certain job position is found at the highest level of the organizational structure and it is of strategic importance to the organization's long-term interests they implement term limits when appointing job incumbents to fill-in such job positions. According to Board Coach (2018, www.boardcoach.com/) there is some debate as to whether it is a "best practice" for organizations to limit the number of consecutive terms that board members can serve. Irrespective of whether there can be a "one size fits all" answer, it is important for every organization to consider whether limiting the number of consecutive board terms would or would not advance their strategic values. Ignoring the question is in effect a decision to have no limit. This might be a good decision, but it may not be. Term limits are sometimes used to avoid the difficult conversations anticipated when long standing members should not be offered additional terms. The question is not be whether a term limit policy might be a good way to remove "dead wood," but rather whether term limits would be of strategic value for the organization¹⁸⁵ (Board Coach, 2018, www.boardcoach.com/).

5.7.1 Reasons for adopting term limits?

Some of the common reasons why organizations introduce term limits when appointing executive management and board of directors include the following:

- It allows the organization to gain new ideas and expert knowledge from new members on a regular basis,
- It helps to boost innovation as new members bring in new skills and research knowledge,
- It helps the organization to have an opportunity to embrace diversity and inclusion amongst its board members,
- It helps to create an organizational culture of embracing change to further the organization's interests,

¹⁸⁵ Board Coach (2018) *Term Limits*. Available from:

http://www.boardcoach.com/index.php/resources/detail/term_limits

- It helps to provide the organization with a new business contacts through its regular new appointments¹⁸⁶ (Board Coach, 2018, www.boardcoach.com/). The issue of interlocking multiple board memberships will be discussed in the following section.

5.8 Interlocking multiple board memberships held by a single board of director

A popular topic related to the functions of board of directors is the issue of interlocking directorates. The current global ‘war for talent’ has led to a high skills shortage of talented management experts therefore the few available management experts in a country, city or a specific geographical area are often offered multiple board directorships. The term *multiple directorship* or *interlocking directorates* can be used interchangeably as they both refer to a situation whereby a single board of director has more than one board directorship employment contract and in certain instances a director can sit in four to five boards in a year or more. The signing of multiple directorship employment contracts by a single board of director is completely legal in most of the countries. While in certain countries the law strictly prohibits multiple directorship holders from carrying-out the following: insider trading or the sharing of corporate secrets with the other companies they signed a directorship employment contract, abuse of the multiple directorship power to create a monopoly that leads to the elimination of competition and loss of jobs and many other laws. Today the issue of board members occupying multiple directorships has become a growing trend amongst professional officers and directors employed in several organizations located in different parts of the world. It has since been discovered that multiple directorships or interlocking directorates can actually benefit an organization to boost its overall performance. This is supported by an academic study that was conducted in Malaysia by Hashim, H.A. and Rahman, M.S.A. (2011) Multiple Board Appointments: Are Directors Effective? *International Journal of Business and Social Science*, Vol 2(17).¹⁸⁷ According to Hashim and Rahman (2011:137) our paper examines the relationship between the presence of

¹⁸⁶ Board Coach (2018) *Term Limits*. Available from:

http://www.boardcoach.com/index.php/resources/detail/term_limits

¹⁸⁷ Hashim, H.A. and Rahman, M.S.A. (2011) Multiple Board Appointments: Are Directors Effective? *International Journal of Business and Social Science*, Vol 2(17), p137-138. Available from:

www.ijbssnet.com/journals/Vol_2_No_17/19.pdf

interlocked directors on a board and earnings quality. For a sample of 554 firms - years spanning 2003 to 2004, we find that the presence of interlocked directors on board is associated with higher earnings quality as measured by the accrual quality model. It shows that the presence of interlocked directors on a board provides an incentive for diligent monitoring as they have the knowledge, expertise, skill and stronger incentive to actively monitor the actions of management and improve the quality of financial reporting. The relation, however, appears non-linear. Too many members in a firm with interlocking directorates appear to deteriorate the quality of earnings. Our results underscore the importance of the corporate governance recommendations of limiting the number of directorships held by any one individual as a means of strengthening the monitoring and oversight role that the board of directors play in the financial reporting process (Hashim and Rahman, 2011:137). The meaning of the term liability of board of directors will be covered in-depth in the next section.

5.9 Liability

Liability often falls on the board of directors when they incompetently perform their fiduciary duties especially when their incompetence somehow disadvantages the organization. However, in some countries the board of directors enjoy limited liability as they may not be held personally accountable for any bad decision or action they make thus their personal assets may not be sold by a civil court of law if found guilty in order to compensate the plaintiff. In some countries officer and director *liability insurance* may be the reason why board of directors are not held liable for any bad decisions or action they made during their term in office in an organization. Nowadays board of directors who carry out their duties in a manner that aims to achieve self interest by disadvantaging the organization from taking advantage of strategic financial or market opportunities during their term in office can legally be held liable via both civil and criminal law. Compliance with corporate governance regulations and policies in organizations has become inevitable as these regulations aim to empower the board of directors to consistently adhere to the fundamental fiduciary principles (*namely the duties of care, loyalty and obedience*) and ethics in decision-making or when taking action. The conclusion of this chapter will be covered in the next section.

5.10 Conclusion

It can be concluded that when board of directors are appointed in an organization they are required to only serve the interests of the organization and its shareholders in good faith. In certain instances when board of directors fail to honor their legal obligations of adhering to their fiduciary duties during their term as officers and directors of an organization they may be dismissed or removed from the board. Today it has become of utmost importance for each and every organization to have a conflict of interest policy that clearly guides the actions and decision-making processes of the organization's executive management, officers and directors. In terms of the labor laws such as the Employment or Labour Relations Act the termination of a board member's contract of employment must always be the last resort when there is conflict between an organization and its board of directors. Traditionally board member contracts have term limits since some of the employment contracts have different time durations or limits for instance 1-12 months, 2-5 years while others are permanent contracts.

5.11 Review questions

- (1) What is the meaning of terms 'conflict of interest' and 'dismissal'? Discuss typical examples of situations that cause conflict of interest by board of directors?
- (2) Describe the various conflict of interest policies for board of directors?
- (3) Explain a typical example of an organization of your choice it's corporate governance code on Conflict of Interest for its Board of Management & the Supervisory Board? Describe the reasons why an organization can dismiss a board member?
- (4) What is the meaning of 'term limits' of boards? Describe in-depth the dilemma around the interlocking of multiple board memberships held by a single board of director? Explain what is the meaning of the term 'liability' when it comes to boards?

Chapter 6: Conflict amongst board of directors in an organization

After reading this chapter you should be able to:

- Define the term ‘conflict’.
- Explain the different types of conflict.
- Describe the causes of conflict in a board.
- Explain how a board can avoid conflict.

6.1 Introduction

The fact that the board of directors are found on the highest level of the organizational structure in each and every organization does not make them immune to conflict. Board of directors are also vulnerable to conflict at the workplace due to the fact that they are also human beings like any other employee in the organization. “Conflict is a natural and normal part of any human interaction; there is nothing unusual about conflict in itself. It is what we do about it when it occurs which is important. Conflict will always be present in a workplace and it's important to seek resolution not just to contain the issues and forget about them. Conflict can be damaging, and many people actively avoid dealing with situations arising from conflict. However, properly handled, conflict can strengthen our dealings with other people and add to our understandings of others’ views or perceptions. In a remote workplace conflict, poorly handled or addressed, can have particularly negative outcomes, as the people we work with are often the same people we socialise with or live near in the community”¹⁸⁸ (CRANApplus, 2018:2, <https://crana.org.au/>).

¹⁸⁹According to the Centre for Effective Dispute Resolution (2014:2) in the boardroom,

¹⁸⁸ CRANApplus (2018) *What is Conflict and What Does it Look Like in the Workplace?* Available from: https://crana.org.au/uploads/pdfs/Other_42.pdf

¹⁸⁹ Centre for Effective Dispute Resolution (2014) *Conflicts in the Boardroom Survey: Results and Analysis*.

Available

from: https://www.cedr.com/docslib/Conflicts_in_the_Boardroom_Survey_Results_and_Analysis.pdf [Accessed 2018, 12 December] p2-6

disagreements are often unavoidable — especially when the board is composed of independent minded, skilled, and outspoken directors. This is not a bad thing. There should be a debate in the boardroom, and decisions should result from a process in which directors consider all reasonably available information¹⁹⁰ (the Centre for Effective Dispute Resolution, 2014:2). The meaning of the term conflict will be discussed in the next section.

6.2 Definition of the term ‘conflict’

Today there are many definitions that clearly explain the meaning of the word ‘conflict’ and how it applies at the modern day workplace. “*Conflicts* are generally defined as relational disputes between two or more parties”¹⁹¹ (CRANAplus, 2018:3, <https://crana.org.au/>).



6.3 Types of conflict

There are different types of conflict that can exist in an organization amongst employees, management and the board of directors. Six common types of conflict in people and organizations are depicted in Figure 6.1 below.

¹⁹⁰ Centre for Effective Dispute Resolution (2014) *Conflicts in the Boardroom Survey: Results and Analysis*.

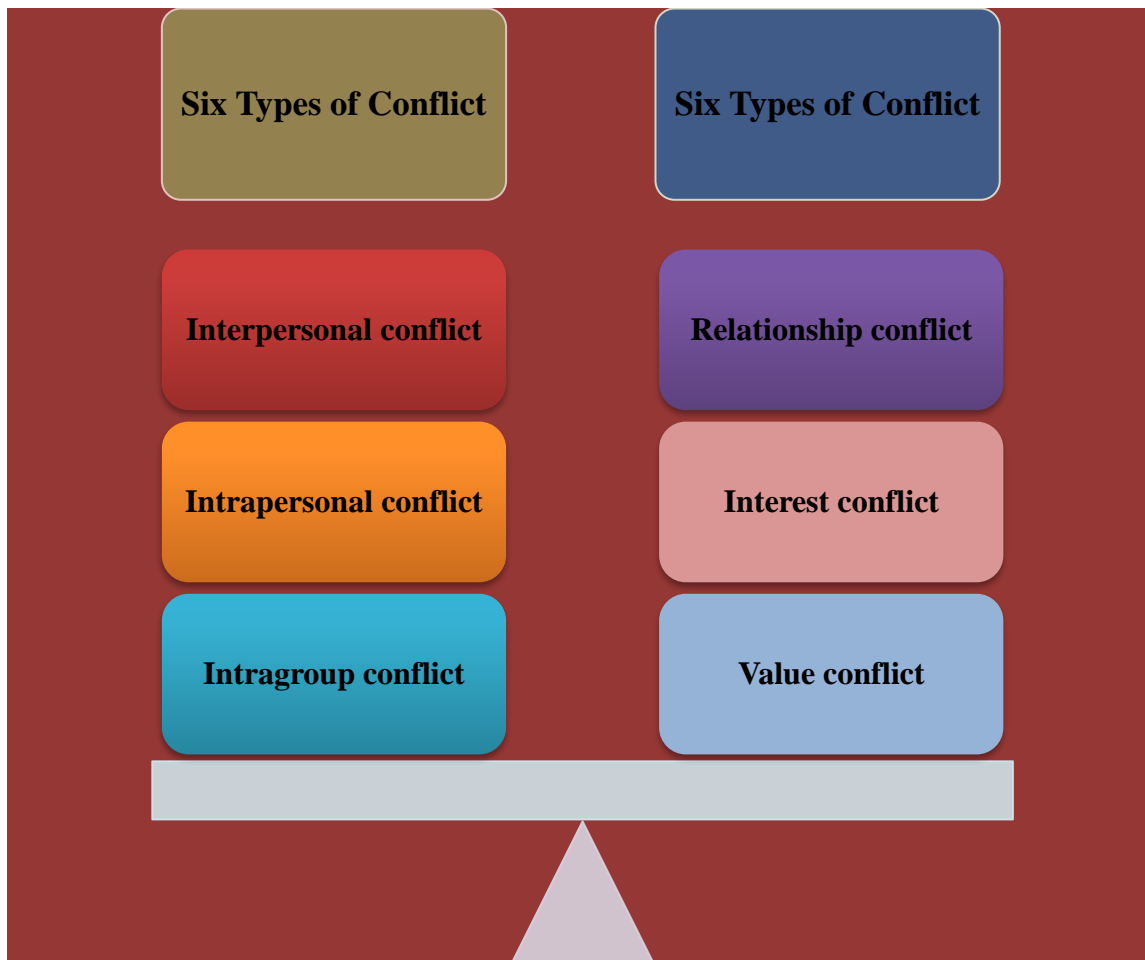
Available

from: https://www.cedr.com/docslib/Conflicts_in_the_Boardroom_Survey_Results_and_Analysis.pdf [Accessed 2018, 12 December] p2-6

¹⁹¹ CRANAplus (2018) *What is Conflict and What Does it Look Like in the Workplace?* Available from:

https://crana.org.au/uploads/pdfs/Other_42.pdf

Figure 6.1 Six types of conflict



Source: Modified: (CRANaplus, 2018:3, <https://crana.org.au/>).

6.3.1 A situation whereby two or more people in an organization disagree to an extent that there is anger over their differences in ideas, opinions and or a particular subject topic is referred to as *interpersonal conflict*. This type of conflict is common in the boardroom today and the chairman of the board must consistently play a critical role in controlling the behavior and emotions of board members during discussions in a board meeting.

6.3.2 Conflict that has a psychological effect due to the fact that it occurs in a person's mind as a result of their thinking, attitude and or beliefs is called *intrapersonal conflict*.

6.3.3 In general conflict that occurs as a result of differences in opinions or thinking between two or more people in a group is referred to as *intragroup conflict*.

6.3.4 “*Relationship conflict* is a personal perspective and can arise when one person behaves in a negative manner or another person has skewed perception due to things like stereotypes and rumors. The relationship between people is affected negatively, and in the workplace, performance is eroded due to poor team cohesion”¹⁹² (CRANAplus, 2018:3, <https://crana.org.au/>).

6.3.5 “*Interest conflict* arises when one person’s desired outcome is in conflict with another person or group’s interests. Typically, this occurs when one person believes that another person’s desires, if enacted, will prevent his or her own interests from being met. This type of conflict can be experienced when two people who have relationship conflict are required by a team manager to work as a part of a team” (CRANAplus, 2018:3, <https://crana.org.au/>).

6.3.6 ““*Value conflict* arises when two people or groups have dissenting views on moral values-- that is basic understanding of what is naturally right or wrong. Relationship and value conflicts are the most subjective conflict types, because they are based totally on what someone "feels" about a person or situation”” (CRANAplus, 2018:3, <https://crana.org.au/>).



There are many reasons why conflict exists amongst people at the workplace and this will be covered in the following section.

6.4 Causes of conflict in a board

“Let me be clear: We’re not speaking of directors who disagree with management strategy or have alternative suggestions. We’re not even talking about hostile directors forced onto the board by someone trying to take over the company. Dysfunctional directors have their own motivations. Some see themselves as the smartest person in the room; others seek recognition.

¹⁹² CRANAplus (2018) *What is Conflict and What Does it Look Like in the Workplace?* Available from: https://crana.org.au/uploads/pdfs/Other_42.pdf

Many are driven by ego. To satisfy their needs, they try to micromanage in the boardroom. They take the discussion down an alley or unnecessarily into the weeds. It is my experience that about one-third of top companies have one or two such dysfunctional directors. Compromising board effectiveness is not an inconsequential problem, and it is one that boards must solve for themselves. The board cannot help a company if its composition is faulty and directors can't work together. Some CEOs try to intervene, but winning the battle doesn't mean winning the war. In some cases, where confrontations between the CEO and a director led the CEO to ask the board to make a choice, the director left but the CEO's relationship with rest of the board was never the same. Indeed, many boards would find it easier to vote against the CEO than a director. It doesn't take more than a couple of people to make the whole board seem dysfunctional—and CEOs don't always see the root of the dysfunction. It's only when you ask them to dissect the meeting—who said what, how they said it, and what they did—that the CEO realizes that the problem lies not with the whole board but with just one or two directors¹⁹³ (Charan, R. 2012, <https://chiefexecutive.net/>). Furthermore, according to Charan, R. (2012, <https://chiefexecutive.net/>) *Dissecting Dysfunction*. Even when the CEO and fellow directors see who is at fault, they often don't know what to do about it. At a health insurance company, a director, who was passed over for the CEO position at his own company and later joined a private equity firm, peppers the new CEO with minor suggestions at every board meeting. The lead director and the chairman of the nominating and governance committees know "John" is wrong but say nothing. At another company, an academic who is a director of a successful financial services company thrives on telling management that their strategy isn't good enough. His antagonistic tone indicates that he is the expert and that management is incompetent. He insists that the strategy be expressed in a single, compelling sentence. "We've gone through this strategy three times and we still don't have a strategy," he has been quoted as saying. "I think management really doesn't want to make bold moves." He keeps management on the defensive, never offering praise but often criticizing. It is a search for power (Charan, R. 2012, <https://chiefexecutive.net/>).

¹⁹³ Charan, R. (2012) *Dealing with Dysfunctional Directors*. Available from: <https://chiefexecutive.net/dealing-with-dysfunctional-directors/>

According to the Centre for Effective Dispute Resolution (CEDR) & the International Finance Corporation (2014:2) a board that never argues or disagrees is most likely to be an inactive, passive, or inattentive board — in other words, an ineffective board that is neither fulfilling its oversight function nor carrying out its duty of care.¹⁹⁴ Yet, if boardroom disagreements and/or shareholder conflicts are not dealt with properly, they can devolve into acrimonious disputes that undermine a company's operation and performance. In 2012, the Centre for Effective Dispute Resolution (CEDR) and the Corporate Governance Group of the International Finance Corporation (IFC) undertook a joint project to explore the causes, nature and methods of resolving corporate governance disputes. As part of this ongoing project, CEDR and IFC carried out a global survey in late 2013 of 191 directors and board members (including IFC Nominee Directors and members of the Private Sector Advisory Group) to find out about their experiences with and attitudes towards boardroom disputes. *Corporate governance disputes involve corporate authority and its exercise and involve the board's powers and actions — or its failure or refusal to act. These conflicts may arise between the board and its shareholders or between directors and executive management. They may also concern issues among the directors themselves or between the board and other stakeholders. A governance dispute implicates the board in one way or another, as a party or as an active participant, and requires the directors' engagement to resolve the conflict.* **Key Findings.** Our results show the significant effects that boardroom disputes can have on an organization — and the challenges that individual members of those boards encounter in attempting to resolve a dispute at this level. The following are some specific findings from the survey:

- We found that 29.6 percent of respondents had experience with a boardroom dispute affecting the survival of an organization.

¹⁹⁴ Centre for Effective Dispute Resolution & the International Finance Corporation & (2014) *Conflicts in the Boardroom Survey: Results and Analysis*. Available from: [https://www.cedr.com/docslib/Conflicts in the Boardroom Survey Results and Analysis.pdf](https://www.cedr.com/docslib/Conflicts_in_the_Boardroom_Survey_Results_and_Analysis.pdf) [Accessed 2018, 12 December] p2-6

- The most common subject matter of board disputes is “financial, structural, or procedural workings of the organization,” closely followed by the “personal behavior and attitudes of directors.”
- Respondents stated that the most difficult factors in resolving board disputes were issues related to competing factions on the board — “handling the emotions of those involved and separating personal from business interest.”
- While 47.8 percent of respondents attempt to mediate board disputes, 34.3 percent admit to frequently being an active party in the dispute, and a further 25.3 percent of respondents frequently take a side of an active party. Board members are much more confident that they can resolve an internal board dispute (58.5 percent felt able to resolve these most of the time) than an external dispute involving the board and external stakeholders (just 24.3 percent felt capable of resolving this kind of dispute)¹⁹⁵.
- Board members are much more confident that they can resolve an internal board dispute (58.5 percent felt able to resolve these most of the time) than an external dispute involving the board and external stakeholders (just 24.3 percent felt capable of resolving this kind of dispute).
- Disputes are most commonly resolved through internal negotiation (61.2 percent) or internal mediation (25.2 percent). Boards are very reluctant to resort to litigation to resolve such disputes (3.1 percent).
- A significant proportion of respondents (67.2 percent) report that they have encountered unresolved issues. 24.1 percent of small-enterprise respondents report that issues are frequently not resolved, whereas only 5.9 percent of those from medium enterprises and 15.6 percent from large enterprises report frequently unresolved issues.

¹⁹⁵ Centre for Effective Dispute Resolution & the International Finance Corporation & (2014) *Conflicts in the Boardroom Survey: Results and Analysis*. Available from: [https://www.cedr.com/docslib/Conflicts in the Boardroom Survey Results and Analysis.pdf](https://www.cedr.com/docslib/Conflicts%20in%20the%20Boardroom%20Survey%20Results%20and%20Analysis.pdf) [Accessed 2018, 12 December] p2-6

- Respondents are extremely interested in having training for dealing with personal factors: 74.8 percent described training in the “ability to deal with different personalities” as very useful.
- A gender difference emerged regarding the kinds of skills desired: women are far more interested in receiving training in negotiation skills, and men are more interested in training on how to deal with different personalities.
- 29.6 percent of respondents had experience of a boardroom dispute affecting the survival of an organization¹⁹⁶ (Centre for Effective Dispute Resolution & the International Finance Corporation, 2014:2). “*About the Survey Participants*. In October and November 2013, we conducted an online survey of 191 members of corporate boards across the world. Our respondents were experienced board members, with the greatest number (43 percent) having more than 10 years’ experience serving on boards. Within their organizations, our respondents were most frequently independent directors (26.2 percent) or nonexecutive directors (22.7 percent), though we had a significant percentage of respondents who had other positions, such as board chair or chief executive officer of their organization. Respondents represented a full range of organization types, the most common being a private non-family company (26.8 percent) or listed company (22.4 percent). They covered a wide range of sectors, particularly finance and banking (28.8 percent), education (11.5 percent), energy (7.9 percent), public sector (5.8 percent), and insurance (5.2 percent)” (Centre for Effective Dispute Resolution & the International Finance Corporation, 2014:2).

Furthermore, according to the Centre for Effective Dispute Resolution (*CEDR*) & the International Finance Corporation & (2014:2) *Boardrooms in Conflict*. All boardrooms have disputes, which not surprisingly cover a wide range of topics. Our survey found that the most frequent subjects of disputes were (in descending order of frequency) (1) the financial, structural,

¹⁹⁶ Centre for Effective Dispute Resolution & the International Finance Corporation & (2014) *Conflicts in the Boardroom Survey: Results and Analysis*. Available from: [https://www.cedr.com/docslib/Conflicts in the Boardroom Survey Results and Analysis.pdf](https://www.cedr.com/docslib/Conflicts_in_the_Boardroom_Survey_Results_and_Analysis.pdf) [Accessed 2018, 12 December] p2-6

or procedural workings of the organization; (2) the personal behavior and attitudes of directors; and (3) strategy development, including mergers and acquisitions.

Table 6.1 Most common topics of boardroom disputes

Most Common Topics of Boardroom Disputes	
Financial, structural, or procedural workings of the organization	40.3%*
Personal behavior and attitudes of directors	38.4%
Strategy development, including mergers and acquisitions	37.2%
Risk appetite and risk management	31.3%
Change and crisis management	30.6%
Audit findings	29.9%
Board process issues, such as structure of meetings, schedules, etc.	29.4%
Management oversight	28.4%
Composition of board and senior management	24.7%
Involvement of shareholder/owner's family in business	21.7%

Source: The Centre for Effective Dispute Resolution (CEDR) & the International Finance Corporation & (2014:5)

*Percentage stating the item was a “frequent” or “very frequent” topic of dispute.

¹⁹⁷According to the Centre for Effective Dispute Resolution (CEDR) & the International Finance Corporation & (2014:2) *Impact of Disputes*. In themselves, disputes are not necessarily a problem for a board; it is when they are mismanaged or become insurmountable that the problem occurs. Considering the impact of these disputes on business priorities (see Table), it is important for organizations to tackle them effectively, to ensure that the negative outcomes are minimized.

Table 6.2 Impact of boardroom disputes on business

Impact of Boardroom Disputes on Business	
Wasting management time	49.3%*
Distracting from core business priorities	44.9%
Reducing trust among board members	42.8%
Affecting the functioning of the board	42.1%
Affecting the efficiency of the organization	38.3%
Negatively affecting relationships within the organization	32.4%
Costing the company money	29.5%
Damaging long-term business performance/profitability	26.8%
Affecting the reputation of the organization	23.7%

¹⁹⁷ Centre for Effective Dispute Resolution & the International Finance Corporation & (2014) *Conflicts in the Boardroom Survey: Results and Analysis*. Available from: [https://www.cedr.com/docslib/Conflicts in the Boardroom Survey Results and Analysis.pdf](https://www.cedr.com/docslib/Conflicts%20in%20the%20Boardroom%20Survey%20Results%20and%20Analysis.pdf) [Accessed 2018, 12 December] p2-6

Source: The Centre for Effective Dispute Resolution (CEDR) & the International Finance Corporation & (2014:5)
*Percentage stating the item had a “significant” or “very significant” impact

There are numerous root causes of conflict that takes place between board of directors and the executive director in an organization today and these will be covered in great detail in the following section.

6.4.1 Root Causes - Why Tensions Develop Between Board Members And The Executive Director

According to the Governance Matters Leadership Tool cited in Boardcoach (2018:1, www.boardcoach.com) *Root Causes - Why Tensions Develop Between Board Members And The Executive Director*:

6.4.1.1. Lack of information or clarity.

- **Board members are unclear about the difference between governance and management.** Management issues are more familiar to most people than governance issues. So the concrete tasks of hiring, project management, or editing the newsletter are easier to understand than more conceptual activities such as setting policy, strategies and exercising oversight. Executive directors complain that this leads board members to ask for, or even demand, detailed information that they do not really need in order to fulfill their fiduciary, governing and oversight responsibilities^{198 199}.
- **Executive directors are unclear about the board’s role.** An executive director may interpret requests for information as a lack of trust in his/her competence, a lack of respect, or a lack of appreciation for his/her work. Executive directors do not always understand the board’s responsibilities, and can resent board members who ask for information that they legitimately need for oversight.
- **Board members are unfamiliar with the scope of the organization’s work and day to day management concerns.** Often board members do not receive adequate orientation to the organization, its programs and its environment, and they do not take the time to learn about the

¹⁹⁸ Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

¹⁹⁹ Governance Matters Leadership Tool cited in Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

organization on their own. As a result, they lack the information they need to provide adequate oversight. This does not prevent some board members from “shooting from the hip” and otherwise challenging the executive director without taking time to understand the context in which he/she is operating (Governance Matters Leadership Tool cited in Boardcoach, 2018:1, www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf). Furthermore, according to the Governance Matters Leadership Tool cited in Boardcoach (2018:1):

6.4.1.2. Change

- **Board and executive director roles shift.** Common causes for a change in board and executive director responsibilities include:
 - *A shift from a volunteer-led organization to one with professional management.* Board members who have been used to making day-to-day operational decisions as an all-volunteer organization can have a hard time moving to an oversight role. They have an investment in the new executive director continuing to do things the way they were done by the old board, which can stifle a new executive director.
 - *The transition from one executive director to the next.* If there has been a transition period in which board members have had to assume some of the day-to-day management of the organization, it can be difficult for those same board members to step back into their governance roles.
 - **The needs of the organization have changed and/or are unclear**²⁰⁰. The same person who was just right for the last phase of the organization’s development may not have the skills needed to take the organization to the next phase. In that case, the executive director feels the pressure to do things that were not part of what s/he signed up for however many years ago, and does not feel competent to take on the new roles. Also, new organizational challenges and needs may not be clear at the board level, leaving board members with a feeling of dissatisfaction due to insufficient measures for progress²⁰¹ (Governance Matters Leadership Tool cited in Boardcoach, 2018:2, www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf).

²⁰⁰ Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

²⁰¹ Governance Matters Leadership Tool cited in Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

[Project-Governance-Matters.pdf](#)). Furthermore, according to the Governance Matters Leadership Tool cited in Boardcoach, (2018:2):

6.4.1.3. Board practices do not support their oversight work.

- **Board members lack focus.** If people do not know where to look, they focus on the first thing they see. This is why a board member with no financial training inevitably starts asking about the \$5,000 postage line when the budget to actual report shows a \$100,000 deficit. Also, if board members do not have a clear understanding of what they should be doing, but still want to be involved, they often grab onto something familiar and try to exercise authority in that area, whether or not it is warranted or helpful.

- **There are no appropriate mechanisms for evaluating the executive director.** In the absence of agreed upon measures and a defined process to evaluate the executive director's performance, board members can only rely on subjective judgments. And if there is no structured way for the board to give feedback to the executive director, concerns about performance may be expressed in any number of counterproductive and even harmful ways.

- **There is not a way to effectively communicate priorities and decisions**

from the board to the executive director.²⁰² In the absence of established and agreed upon communications protocols, executive directors are likely to feel that they report to twenty-six separate bosses rather than one board of directors. In these situations, every individual board member's request, program idea or personal priority can become a mandate. Board members then feel resentful and unappreciated when the executive director does not respond in accordance with their individual preferences, suggestions or demands ²⁰³(Governance Matters Leadership Tool cited in Boardcoach, 2018:3, www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf). Furthermore, according to the Governance Matters Leadership Tool cited in Boardcoach, (2018:3):

6.4.1.4 Incompatible assumptions and styles.

- **Some executive directors do not want to be held accountable by the board.** An executive director has to manage staff, figure out how to achieve program goals, raise money, balance the

²⁰² Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

²⁰³ Governance Matters Leadership Tool cited in Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

budget and represent the organization to the outside world, and those are just the formal roles! It is an enormous responsibility. As organizational leaders, executives need freedom and flexibility to make decisions based on their professional experience and judgment, and can be resentful of a board that wants to supervise them.

- To ensure their independence, some executive directors can try to control the board by “stacking” the membership with allies, or by controlling the flow of information. These executive directors essentially wish that the board would just leave them alone and go raise money and, as a result, they cannot understand why their board is unresponsive or inactive.

- **Board members behave in ways that make collaboration difficult.** We see behaviors in and out of the board room that would never be tolerated in another setting. For example, some board members take advantage of their oversight role and use it as an excuse to “be the boss.” This can translate into a range of bullying behaviors such as demanding inappropriate or unnecessary information and in unreasonable timeframes, or presenting frequent criticism of the executive director. Other board members may require extensive hand holding, requesting frequent phone or in-person meetings with the executive director²⁰⁴.

- **Personalities clash.** Underneath all of the accusations, it sometimes comes down to the fact that the executive director and one or more board members just cannot get along – their styles or values are too different. Often one or the other will feel slighted or insulted, and s/he will lash out as a result²⁰⁵ (Governance Matters Leadership Tool cited in Boardcoach, 2018:3, www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf). The various ways that an organization can use to avoid conflict will be covered in the following section.

6.5 How to avoid conflict in a board

Conflict is part of every human beings interactions with others at the workplace or in society. The ultimate solution of handling conflict is to manage it. There are different methods and conflict management styles the board of directors can adopt in order to manage conflict.

²⁰⁴ Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

²⁰⁵ Governance Matters Leadership Tool cited in Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

6.5.1 Types of conflict management strategies or ‘modes of responding to conflict’

Nowadays there are effective ways of dealing with conflict at the workplace that board of directors can follow to avoid experiencing destructive conflict in the board room and a typical good example is the Thomas-Kilmann Conflict Mode Instrument. According to Kenneth W. Thomas and Ralph H. Kilmann (2018) these two basic dimensions of behavior define five different modes for responding to conflict situations:

6.5.1.1 Competing is assertive and uncooperative—an individual pursues his own concerns at the other person's expense. This is a power-oriented mode in which you use whatever power seems appropriate to win your own position—your ability to argue, your rank, or economic sanctions. Competing means "standing up for your rights," defending a position which you believe is correct, or simply trying to win²⁰⁶.

6.5.1.2 Accommodating is unassertive and cooperative—the complete opposite of competing. When accommodating, the individual neglects his own concerns to satisfy the concerns of the other person; there is an element of self-sacrifice in this mode. Accommodating might take the form of selfless generosity or charity, obeying another person's order when you would prefer not to, or yielding to another's point of view.

6.5.1.3 Avoiding is unassertive and uncooperative—the person neither pursues his own concerns nor those of the other individual. Thus he does not deal with the conflict. Avoiding might take the form of diplomatically sidestepping an issue, postponing an issue until a better time, or simply withdrawing from a threatening situation.

6.5.1.4 Collaborating is both assertive and cooperative—the complete opposite of avoiding. Collaborating involves an attempt to work with others to find some solution that fully satisfies their concerns. It means digging into an issue to pinpoint the underlying needs and wants of the

²⁰⁶ Kenneth W. Thomas and Ralph H. Kilmann (2018) *An Overview of the Thomas-Kilmann Conflict Mode Instrument (TKI)*. Available from: www.kilmanndiagnostics.com/overview-thomas-kilmann-conflict-mode-instrument-tki

two individuals. Collaborating between two persons might take the form of exploring a disagreement to learn from each other's insights or trying to find a creative solution to an interpersonal problem.

6.5.1.5 Compromising is moderate in both assertiveness and cooperativeness. The objective is to find some expedient, mutually acceptable solution that partially satisfies both parties. It falls intermediate between competing and accommodating. Compromising gives up more than competing but less than accommodating. Likewise, it addresses an issue more directly than avoiding, but does not explore it in as much depth as collaborating. In some situations, compromising might mean splitting the difference between the two positions, exchanging concessions, or seeking a quick middle-ground solution²⁰⁷ (Kenneth W. Thomas and Ralph H. Kilmann, 2018, <http://www.kilmanndiagnostics.com>).

“Each of us is capable of using all five conflict-handling modes. None of us can be characterized as having a single style of dealing with conflict. But certain people use some modes better than others and, therefore, tend to rely on those modes more heavily than others—whether because of temperament or practice” (Kenneth W. Thomas and Ralph H. Kilmann, 2018, <http://www.kilmanndiagnostics.com>).

6.5.3 Roles In Moving Forward

According to the Governance Matters Leadership Tool cited in Boardcoach (2018:9, www.boardcoach.com/) as always, how you proceed will depend on the root cause of the tension(s) that exist(s). What follows are some alternatives based on those root causes:

6.5.3.1 If you are the board chair.

- **If you are part of the conflict with the executive director**, assign another board member to take the lead on the situation and be willing to follow his/ her leadership²⁰⁸.

²⁰⁷ Kenneth W. Thomas and Ralph H. Kilmann (2018) *An Overview of the Thomas-Kilmann Conflict Mode Instrument (TKI)*. Available from: www.kilmanndiagnostics.com/overview-thomas-kilmann-conflict-mode-instrument-tki

²⁰⁸ Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

- **If you think that the conflict is rooted in a poor understanding** by board members of their role(s), propose a board self-assessment process.
- **If you think that the conflict is due to personalities**, meet individually with the people involved to mirror your observations, and help to broker a relationship between the executive director and the board member(s) involved²⁰⁹.
- **Get more information about executive director evaluation** from outside sources, and propose a process back to the executive director and the board.
- **Initiate a strategic planning process** to clarify where the organization is headed and what kind of leadership is needed to move it there.
- **Get help from a knowledgeable nonprofit professional** or board member of another organization that has gone through something similar.

6.5.3.2. If you are on the executive or personnel committee.

- **Talk to the board chair** and work with him or her to develop a solution.
- **Report your observations** in executive session and work with other committee members to plan a way of addressing the issue.
- **Get help from a knowledgeable nonprofit professional** or board member of another organization that has gone through something similar.
- **Get more information about executive director evaluation** and propose a process back to the executive director and the board.

6.5.3.3 If you are a board member.

- **Talk to the board chair** and work with him or her to develop a solution.
- **If you are not part of the conflict**, talk to the executive director to see how she/he is experiencing the situation and develop a game plan for addressing what is going on.
- **Name what you are seeing at a board meeting** to get people to acknowledge the tensions and start to find a way to work on them.
- **Get help from a knowledgeable nonprofit professional** or board member of another organization that has gone through something similar.

6.5.3.4. If you are the executive director.

²⁰⁹ Governance Matters Leadership Tool cited in Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

- **Talk to the board chair**, particularly if s/he is not involved in the conflict, and ask him or her to speak with the board member(s) involved.
- **Give the board chair and other board leaders information** about board roles, board self-evaluation, the difference between management and governance, conflict resolution and other materials that might help diffuse the tension.
- **Be sure to acknowledge positive board member activities** and contributions publicly. Sometimes all people want is to be stroked a little.
- **Talk to a peer to see how they have handled a similar situation.**
- **Talk to the board members involved from an objective**, task-oriented perspective rather than a personalized, confrontational perspective, to see if a workable solution can be reached between you.
- **Make sure that you are giving people what they legitimately need** to fulfill their governance responsibilities, including financial information, program performance information, and policies for internal controls and personnel²¹⁰ (Governance Matters Leadership Tool cited in Boardcoach, 2018, www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf). The conclusion of this chapter will be covered in the next section.

6.6 Conclusion

It can be concluded that similar to any other group of people in organizations the board of directors are also vulnerable to conflict at the workplace due to the fact that they are also human beings. Generally conflict has been part of society since the ancient time period and it naturally exists amongst people. There are different types of conflict and these include the following: interpersonal conflict, intrapersonal conflict, intragroup conflict, intergroup conflict, relationship conflict, interest conflict and value conflict. Today conflict can be caused by the lack of clarity of goal or objectives in the boardroom and also when other board members are in support of new change initiatives whilst other boards are resisting change conflict can easily exist.

6.7 Review question

(1) Define the term 'conflict'?

²¹⁰ Boardcoach (2018) *Executive Director Conflict*. Available from: www.boardcoach.com/downloads/Executive-Director-Conflict-Board-Leadership-Project-Governance-Matters.pdf

- (2) Describe the different types of conflict available in an organization today?
- (3) Discuss the causes of conflict in a board and please give relevant examples?
- (4) Explain using examples how an organization and board of directors can avoid conflict?

Chapter 7: Election of a board

After reading this chapter you should be able to:

- Define the terms ‘election’ and ‘nomination’.
- Discuss how elections of board members are held in a profit-making organization and how it elects and nominates its board of directors.
- Describe how elections of board members are held in a nonprofit-making organization and how it elects and nominates its board of directors.
- Discuss the pros and cons of having a separate CEO & Chairman.

7.1 Introduction

Term limits on the appointment of the board of directors have made it a necessity for organizations to conduct elections to choose their board of directors on a regular basis in order to replace or re-nominate current board of directors whose terms in office will be ending after a specific period of time for instance 1-3 years or more. The election of board members is one of the most critical human resources activity done in an organization since boards carry-out the strategic planning of the organization and they also develop long term policies employees and executive management must adhere to in order to serve the best interests of the organization. An organization that centers its operational activities on good corporate governance principles consistently ensures that it nominates and elects its board of directors after a certain period of time. Another important topic that has gained significant recognition in the world of business today is that in some countries the acceptable corporate governance practices clearly stipulate that a Chairman of an organization must not occupy the position of a CEO while in other countries it is totally acceptable. The meaning of the term election will be discussed in greater detail in the following section.

7.2 Definition of the terms ‘election’ and ‘nomination’

The word ‘elect’ can be interchangeably used to refer to the word ‘select’. Therefore, the term ‘*election*’ in the context of this textbook refers to an organized formal democratic process whereby two or more individuals cast their votes to select a person they prefer to hold either a private or public office of an organization that is operating as either a profit-making or non-profit

making entity. “*Nomination* is part of the process of selecting a [candidate](#) for either [election](#) to a [public office](#), or the bestowing of an honor or [award](#). A collection of nominees narrowed from the full list of candidates is a [short list](#)” (Wikipedia, 2018. This article uses material from the Wikipedia article **Nomination**, <https://en.wikipedia.org/wiki/Nomination> which is released under the [Creative Commons Attribution-ShareAlike 3.0 Unported License \(view authors\)](#). The following section covers in-depth a good typical example of how a profit-making organization elects and nominates its board of directors.

7.3 A typical example of how a profit-making organization elects and nominates its board of directors

A good example of one of the world’s leading profit-making organization that is well led and innovation centered is the Ford Motor Company which is based in Dearborn, Detroit (*United States of America*) founded by one of the world’s unquestionable greatest iconic entrepreneurs Henry Ford on June 16, 1903 (Ford Motor Corporation, 2018)²¹¹.

7.3.1 Ford Motor Corporation

“Corporate Governance Principles

I. Purpose

These Corporate Governance Principles, adopted by the Board of Directors of the Company, together with the charters of the Audit Committee, the Compensation Committee, the Sustainability and Innovation Committee, the Finance Committee and the Nominating and Governance Committee of the Board, provide the framework for the governance of Ford Motor Company²¹². The Board will review these principles and other aspects of Ford governance annually or more often, as the Board deems necessary or appropriate. The Board of Directors of the Company is elected by and responsible to the shareholders. Ford's business is conducted by its employees, managers and officers, under the direction of the chief executive officer (the

²¹¹ Ford Motor Company (2018) *Our Story*. Available from: <https://corporate.ford.com/history.html>

²¹² Ford Motor Corporation (2015) *Corporate Governance Principles*. Available from:

https://corporate.ford.com/content/dam/corporate/en/company/corporate-governance/Company_Governance_Corporate_Governance_Principles.pdf

CEO) and the oversight of the Board, to enhance the long term value of the Company for its shareholders. The Board of Directors monitors the performance of the CEO and senior management to assure that the long-term interests of the shareholders are being served.

II. Board of Directors Structure and Operations/Board Compensation

Selection Process and Size of Board. The directors are elected each year by the shareholders at the annual meeting of shareholders. Shareholders may propose nominees (other than self-nominations) for consideration by the Nominating and Governance Committee of the Board by submitting the names, qualifications, and other supporting information to: Secretary, Ford Motor Company, One American Road, Dearborn, MI 48126. Properly submitted nominations must be received by the date set forth in the most recent proxy statement to be considered by the Nominating and Governance Committee for inclusion in the following year's nominations for election. The Board proposes a slate of nominees to the shareholders for election to the Board. The Board also determines the number of directors on the Board, provided that there are at least 10 and not more than 20 directors, as provided in the By-Laws of the Company. Between annual shareholder meetings, the Board may elect directors to vacant Board positions to serve until the next annual meeting”²¹³ (Ford Motor Corporation, 2018:1, https://corporate.ford.com/content/dam/corporate/en/company/corporate-governance/Company_Governance_Corporate_Governance_Principles.pdf). The following section covers in-depth a good typical example of how a not-for-profit-making organization elects and nominates its board of directors.

7.4 A typical example of how a non-profit making organization elects and nominates its board of directors

As previously mentioned that non-profit making organizations also hold elections to choose their preferred candidates after a certain period of time either 1-3 years or more. ²¹⁴One of the non-

²¹³ Ford Motor Corporation (2015) *Corporate Governance Principles*. Available from: https://corporate.ford.com/content/dam/corporate/en/company/corporate-governance/Company_Governance_Corporate_Governance_Principles.pdf

²¹⁴ Canadian Internet Registration Authority (CIRA) (2018) *History*. Available from: <https://cira.ca/cira-history>

profit making organization that holds board of directors election is The Canadian Internet Registration Authority (*CIRA*).

7.4.1 The Canadian Internet Registration Authority (CIRA)

“About CIRA

The Canadian Internet Registration Authority (CIRA) is a member-based not-for-profit organization, best known for managing the .CA internet domain on behalf of all Canadians, developing and implementing policies that support Canada’s internet community and representing the .CA registry internationally. We are building programs, products and services that leverage all the internet has to offer to help build a better online Canada, while providing a safe, secure and trusted online experience to all Canadians²¹⁵.

CIRA History

In Canada and around the world, CIRA is closely associated with the .CA domain. CIRA was incorporated in December 1998 and became the official .CA registry on December 1, 2000. But .CA’s history pre-dates CIRA’s.

Board of directors election

At CIRA, we believe that Canadians have both the right to be informed about how the Internet develops, and a responsibility to act on it. Whether you use the Internet for work or play, you can influence the future development and direction of the Internet in Canada. Participating in CIRA’s governance is one way you can help build a better online Canada. CIRA is governed by a board of directors comprised of 12 elected directors and three board advisors. Every year, a number of seats on the board become vacant and must be filled. This year there are four board seats available:

- 3 from the nomination committee slate

²¹⁵ Canadian Internet Registration Authority (*CIRA*) (2018) *History*. Available from: <https://cira.ca/cira-history>

- 1 from the Member slate

There are also up to six positions available on the nomination committee.

CIRA's election process happens in several stages, beginning with filling seats on the nomination committee in April and ending in an online vote in September” (Canadian Internet Registration Authority (CIRA), 2018, <https://cira.ca/>). The various pros and cons of having a separate CEO and chairman will be discussed in detail in the following section.

7.5 Pros and Cons of having a separate CEO & Chairman

Generally it can be argued that there is still limited academic research that has managed to effectively explore the duality effect of the role of a CEO and Chairman being occupied by a single person in an organization including how it influences the performance or growth of an organization in today’s modern day highly dynamic operating business environment. The decision to appoint a single person to occupy the job position of a CEO and Chairman is generally viewed as neither right nor wrong by most of the academics, business leaders and other industry experts as such decisions are based on the size, type and business strategy of the organization including the laws of the country the organization operates. According to Stockham and Sikes (2013) several international jurisdictions, such as the United Kingdom and South Africa, encourage separating the roles in their best practice codes and guidelines. However tempting it may be to separate the CEO and Chairman roles, such a split does not guarantee adequate or superior oversight²¹⁶ (Stockham and Sikes, 2013, www.corporatecomplianceinsights.com/). “Strong leadership is required to foster a collaborative environment that supports effective decision-making in the boardroom. That much is clear. How leadership roles are defined and structured, however, is a controversial subject. In the U.S., it is common for CEOs at larger companies to also serve as board chair”²¹⁷ (Gleason, 2015,

²¹⁶ Stockham, M. and Sikes, M. (2013) *Split Decisions: the Pros and Cons of Separating CEO and Chairman Roles*. Available from: <https://www.corporatecomplianceinsights.com/split-decisions-the-pros-and-cons-of-separating-ceo-and-chairman-roles/>

²¹⁷ Gleason, P. (2015) *Weighing the Benefits of a Combined Chair and CEO Role*. Available from: <https://www.brinknews.com/weighing-the-benefits-of-a-combined-chair-and-ceo-role/>

www.brinknews.com/). In addition a board helps to provide expert knowledge to an organization on various business-related issues such as production forecasting, human resources management, international trade, economics, financial controls, innovation, branding, customer satisfaction, establishing supplier relationships and many other topics.

Table 7.1: The various pros and cons of having a separate CEO & Chairman

Pros:	Cons:
<ul style="list-style-type: none"> • “Executives and other corporate associations advise that a unified role ensures strong, central leadership and increases efficiency,..”²¹⁸ (Stockham and Sikes, 2013, www.corporatecomplianceinsights.com/). 	<ul style="list-style-type: none"> • “Concerned shareholders often urge that a unified role leads to a lack of oversight and diminishes the independence of a board” (Stockham and Sikes, 2013, www.corporatecomplianceinsights.com/).
<ul style="list-style-type: none"> • Unified Chairman/CEOs may provide advantages in both leadership and oversight in light of their superior knowledge of the organization due to their managerial roles (Stockham and Sikes, 2013, www.corporatecomplianceinsights.com/). 	<ul style="list-style-type: none"> • The positives of separating the chairman and CEO roles are appealing. The board is directly responsible for the hiring and firing of the CEO, and is charged with general oversight of the corporation’s affairs and its management. As a result, installing the CEO — the one person directly responsible for that management — as Chairman could indicate a conflict of interest. This is further complicated by the fact that the CEO is hired and fired by the board. An independent Chairman of the Board can create an independent source of authority with tangible authority to address the concerns of the board. This independent perspective creates an opportunity for the board to effectively address any abuses that may occur, and to address any concerns about the performance of the CEO (Stockham and Sikes, 2013, www.corporatecomplianceinsights.com/).

²¹⁸ Stockham, M. and Sikes, M. (2013) *Split Decisions: the Pros and Cons of Separating CEO and Chairman Roles*. Available from: <https://www.corporatecomplianceinsights.com/split-decisions-the-pros-and-cons-of-separating-ceo-and-chairman-roles/>

<ul style="list-style-type: none"> • While the advantages of an independent CEO and Chairman of the Board appear obvious, the advantages of the unified position are just as obvious when considering the day-to-day operations of a corporation. The CEO, as the manager of the corporation, has a superior knowledge of the operations of the business. When that role is unified with his role as Chairman of the Board, one person occupying both of these roles may better be able to lead the corporation and to identify any problems that may arise. This can provide superior knowledge to the board and increase the information available to it. This unified leadership structure creates efficiency by allowing the unified executive to operate in both capacities at once. The other board members can have confidence that their Chairman/CEO is fully aware of the corporation’s strengths and weaknesses, along with what issues need to be addressed moving forward (Stockham and Sikes, 2013, www.corporatecomplianceinsights.com/). 	<ul style="list-style-type: none"> • On the other hand, the potential conflicts of interest described above can create opportunities for abuse, as the Chairman in his CEO role may abuse his position and conceal from the board potential problems and any issues created by his management (Stockham and Sikes, 2013, www.corporatecomplianceinsights.com/).
<ul style="list-style-type: none"> • “Combining the chair and CEO roles is arguably beneficial because it creates clear lines of command throughout the entire company that converge in a single authority figure. This structure is the most prevalent in U.S.-based companies”²¹⁹ (Gleason, 2015, www.brinknews.com/). 	<ul style="list-style-type: none"> • “Separating the chair and CEO roles can promote overall board independence while allowing the CEO to focus on the everyday demands of managing a company” (Gleason, 2015, www.brinknews.com/).

Source: Modified: (Stockham and Sikes, 2013 & Gleason, 2015)

The conclusion of this chapter will be covered in the next section.

²¹⁹ Stockham, M. (2013) *Split Decisions: the Pros and Cons of Separating CEO and Chairman Roles*. Available from: <https://www.corporatecomplianceinsights.com/split-decisions-the-pros-and-cons-of-separating-ceo-and-chairman-roles/>

7.6 Conclusion

Nowadays the election of board members is one of the most critical human resources activity done in an organization since boards carry-out the strategic planning of the organization and they also develop long term policies employees and executive management must adhere to in order to serve the best interests of the organization. Notably, the word ‘elect’ can interchangeably be used to refer to the word ‘select’. On the other hand today in public and non-profit organizations board of directors are appointed via the election process to act on behalf of the owners (*if it is a profit-making public entity*) or various stakeholders (*if it is a non-profit making entity*) of the organization. One of the most critical aspect about making the board member elections in an organization highly effective is by ensuring that all the parties involved in the nominations of potential job candidates has easy, reliable and full access of all relevant data or facts about the candidates. It can be concluded that it is up to the organization to finally decide on whether it should have the chairman of the board as its current CEO or separate the duties to offer different people since both options have their own advantages and disadvantages.

7.7 Review questions

- (1) Define the terms ‘election’ and ‘nomination’?
- (2) Explain in-depth how elections of board members are held in a profit-making organization and how it elects and nominates its board of directors?
- (3) Discuss how elections of board members are held in a nonprofit-making organization and how it elects and nominates its board of directors?
- (4) Describe the pros and cons of having a separate CEO & Chairman?

Chapter 8: Innovation, diversity & inclusion are now the key ingredients to the success of a board

After reading this chapter you should be able to:

- Define the terms ‘innovation’, ‘change’ and ‘diversity & inclusion’.
- Explain how change is a key benefit for every board.
- Describe the importance of diversity & inclusion in a board.
- Identify the reasons why innovation is important to a board of directors.

8.1 Introduction

The role played by the board of directors in the success of the organization is increasing its value on a day-to-day basis. Today the globalization of the world economy into a single market which is mainly attributed by the Internet has made diversity a necessity in each and every organization’s board in order for it to effectively compete in the global market. Diversity has become of utmost importance because of the rapidly changing demographic structure of the global workforce which now requires organizations to manage diversity with utmost care in order to successfully appeal to the diversified global marketplace²²⁰ (Laubscher, 2001:18). The human resources department today is responsible for managing the shift of diversity management to inclusion in the organization²²¹ (Jordan, 2011). Generally transformative innovation in an organization often starts with the board of directors thus organizations that want to succeed in the marketplace must adopt an innovation-focused culture in the way they do things on a day-to-day basis. In today’s business world everything around us is changing on a daily basis due to technological advancements therefore manufacturing or service-oriented businesses need to consistently innovate in order to remain up-to-date with the changing consumer demands and technology.²²² An organization that has a board of directors who embrace innovation as a way of

²²⁰ Laubscher, C (2001) Managing Diversity. *People Dynamics*, p16-18.

²²¹ Jordan, T. H. (2011) Moving from Diversity to Inclusion. *Profiles in Diversity Journal*. Available from: www.diversityjournal.com/1471-moving-from-diversity-to-inclusion/

²²² Imagination.com (2017) *Innovate Eco-systems*. Available from: <http://www.imagination.com.au/tag/innovative-eco-systems/>

life is more likely to prosper at its creativity initiatives and it will definitely remain rich with original concepts while simultaneously remaining innovation centred. One of the key benefits of innovation in a firm is that it helps to engage and inspire employees to tap into the power of the internal crowd, and empower employees to create, invent and innovate new products, processes and services²²³ (Imagination.com.au, 2016, www.imagination.com.au). Change is what comes after an organization innovates and board of directors must adopt a culture of embracing it especially when it helps the organization achieve its best interests and those of its shareholders. The meaning of the term innovation and diversity will be discussed in-depth in the following section.

8.2 Definition of the terms ‘innovation’, ‘change’ and ‘diversity & inclusion’

Several definitions of the term diversity & inclusion are now available in different business management related textbooks. "*Diversity* means all the ways we differ. Some of these differences we are born with and cannot change. Anything that makes us unique is part of this definition of diversity. *Inclusion* involves bringing together and harnessing these diverse forces and resources, in a way that is beneficial. Inclusion puts the concept and practice of diversity into action by creating an environment of involvement, respect and connection - where the richness of ideas, backgrounds, and perspectives are harnessed to create business value. Organizations need both diversity and inclusion to be successful"²²⁴ (Jordan, 2011). Change and innovation are interrelated despite the fact that they have different meanings. ²²⁵“At ImagineNation™ we acknowledge that *innovation* is about creating “*changes that add value*” and involves knowing how to see, respond & solve problems in creative ways that people value & cherish! *Business enterprise innovation* involves making changes that add value in terms of either revenue growth or increased operational efficiency. It may involve the creation of new products and services that deliver value to customers, in a manner that is supported by a sustainable and profitable business

²²³ Imagination.com.au (2016) *8 Reasons Why Innovation is Important to Businesses Today*. Available from: <http://www.imagination.com.au/innovation-blog/8-reasons-innovation-important-businesses-today/>

²²⁴ Jordan, T. H. (2011) Moving from Diversity to Inclusion. *Profiles in Diversity Journal*. Available from: www.diversityjournal.com/1471-moving-from-diversity-to-inclusion/

²²⁵ Imagination.com.au (2016) *8 Reasons Why Innovation is Important to Businesses Today*. Available from: <http://www.imagination.com.au/innovation-blog/8-reasons-innovation-important-businesses-today/>

model”²²⁶ (Imagination.com.au, 2017, www.imagination.com.au). Generally organizations reach their future vision after going through various change processes and planning. Therefore, establishing change begins with developing a vision for change followed by the empowerment of employees to play the role of change agents in order to achieve that vision. One of the simple definitions of *change* is when an organization embraces a different way of doing things (*for instance a new method, system, procedure or policy*) or an idea that is completely new to it in its own way²²⁷ (Wang, Lim and Kamardeen, 2012:13). Change is good for every organization and this will be covered in the following section.

8.3 Embracing change is a key benefit for every board

Boards have a task of stewarding an organization’s growth objectives, consistent operational efficiency, strategic planning and so on. Thus embracing change is one of the ways a board can show its commitment towards achieving the best interests of the organization. ²²⁸According to Catambay (2017, www.clarizen.com/) [Embracing and managing change](#) can help you:

- *Reduce the status quo mentality and create a platform for positive and creative thinking* – your business is dependent on whether you have a tradition for creative thinking.
- *Create new modern processes and methodologies* – be sure you revise your processes and [methodologies](#) . What is good today can become inefficient tomorrow. There are so many new tools and applications that can help you improve! If you evaluate new business applications for your company, check that the vendor shares your drive for change. This will guarantee that the tool will help you to improve constantly.
- *Find solutions for challenges* – you cannot “rest” on the current achievements. Remember – you are not alone in the market.

²²⁶ Imagination.com (2017) *Innovate Eco-systems*. Available from: <http://www.imagination.com.au/tag/innovative-eco-systems/>

²²⁷ Wang, Z., Lim, B. and Kamardeen, I. (2012) Volatility in Construction: Different Dimensions and Types of Changes, *Australasian Journal of Construction Economics and Building Conference Series*, 1(2), p13-15.

²²⁸ Catambay, A. (2017) *The Advantages of Change*. Available from: <https://www.clarizen.com/the-advantages-of-change/>

- *Promote flexibility* – flexibility is a key to embrace new ideas and directions
- *Promote systematic and visionary thinking rather than linear improvement* – you need to look into the future every moment and not only into the nearest future. Also, try to predict what will happen after the nearest future. Keep in mind that visionary thinking helps you not only to predict, but also to drive the future.
- Be ready at any moment for uncertainty, adapt to the changing requirements of your customers and the market²²⁹ (Catambay, 2017, www.clarizen.com/).
- *It helps to achieve progress* – “Only people with an internal drive for change know that in order to progress you need to improve, and improvement means change” (Catambay, 2017, www.clarizen.com/).
- *It creates new better opportunities* - “At the end of the day, change creates opportunity” (Catambay, 2017, www.clarizen.com/). When a board agrees to take the organization’s operational and future activities in a certain direction it has never explored before in its operational life there is a greater possibility of the organization discovering more new opportunities to maximize on in order to increase its market and brand value while upholding its shareholders best interests. The reasons why diversity and inclusion are important in a board will be covered in the following section.

8.4 Importance of diversity & inclusion in a board

“Way back when, it all made sense. Having people on your board of directors who were reliable, like-minded and known entities was the most logical strategy to build a board. After all, the purpose of the board was to support the chief executive officer’s (CEO) plan and assure the shareholders that experienced, intelligent people were looking out for their interests. Even if this strategy was well-intentioned, it came with a number of significant downsides. First, it created an environment in which directors were beholden to the CEO for their seat—something that clearly

²²⁹ Catambay, A. (2017) *The Advantages of Change*. Available from: <https://www.clarizen.com/the-advantages-of-change/>

undermined board independence. Second, a board built on a handful of relationships has the inherent risk of insularity. This homogeneity can be a hindrance in an increasingly dynamic environment. As globalization, the rapid deployment of technology, an increasing need for risk management and the shifting demographics of workforces made businesses much more complex, boards began to broaden their composition”²³⁰ (Russell Reynolds Associates, 2018, www.russellreynolds.com/). Globalization has made the global marketplace to become diverse thus it has become the sole responsibility of organizations to focus on board diversity when hiring their board of directors. Diversity and inclusion has become a moral choice an organization must make whenever it is appointing new board of directors to serve its best interests. According to the National Association of Corporate Directors (2018) “*NACD research shows that shareholders and institutional investors are placing greater emphasis on board diversity than ever before,*” said NACD president and CEO Peter Gleason. “*We urge boards to be intentional about diversity, and these tools are designed to help accelerate progress in this area.*” Announced earlier this year in collaboration with Deloitte, NACD’s NXT initiative is a multiyear initiative to help directors and boards understand how to leverage the power of diversity and inclusion to create long-term value²³¹ (National Association of Corporate Directors, 2018, www.nacdonline.org/).

“*Create a culture of inclusion.* The importance of board culture shouldn’t be overlooked by boards committed to making a difference. Highly effective boards have a culture of engagement built upon a commitment to inquiry—knowing that it is better to ask the hard questions within the structure of the board’s meetings than to publicly critique board decisions after the fact. Establishing a culture within the board that facilitates the kind of strategic consideration and decisions so essential for the times requires that all important issues be put on the table and that all board members become aware of those issues. Such a culture relies upon a structure that encourages smart engagement—based on dashboards, metrics, and other meaningful data that inform decisions and provide transparency—especially between the board and the

²³⁰ Russell Reynolds Associates (2018) *Different Is Better: Why Diversity Matters in the Boardroom*. Available from: www.russellreynolds.com/insights/thought-leadership/different-is-better-why-diversity-matters-in-the-boardroom

²³¹ National Association of Corporate Directors (NACD) (2018) *About*. Available from: https://www.nacdonline.org/about/press_detail.cfm?itemnumber=62216

administration” (Legon, 2014, www.agb.org/). Effective corporate governance can only be achieved when the board of directors have in-depth knowledge and understanding of the business principles²³² (Legon, 2014, www.agb.org/). “That requires a commitment to what matters most: the priorities of the business model in an environment where revenue and expense decisions are increasingly uncertain,…” (Legon, 2014, www.agb.org/).

Today there are numerous advantages that can be enjoyed by an organization when it adopts a diversity and inclusion culture in its boardroom. ““Boards become more appreciative of having a broad perspective as they accumulate experience in dealing with it.

- The directors with whom we spoke saw the benefits of diversity as having been established beyond dispute. “Diversity and inclusion are not just the right thing to do but are important to the business agenda,” said one director. “Boards are at their best when there is diversity of culture, thinking and perspective.”
- All directors reported that constructively challenging the status quo is healthy. As one woman director with more than two decades of board service recounted, “I helped people move from the notion of ‘Being different is bad,’ to ‘Being different is good.’ In other words, diversity is not deviant.”
- Women are increasingly making their way into the boardroom, in part because of the greater number of women in the C-suite who make up the pool of eligible candidates. As important, heightened awareness during the past decade of the pitfalls of homogeneity has contributed to more women in the boardroom. We see a trend, its sustainability unknown, that boards are increasingly focusing their recruiting efforts on directors who bring a diverse perspective to the challenging requirements of governance and improved board performance rather than those who

²³²Legon, R. (2014) *The 10 Habits of Highly Effective Boards*. Available from:

<https://www.agb.org/trusteeship/2014/3/10-habits-highly-effective-boards#> [Accessed 2018, 24

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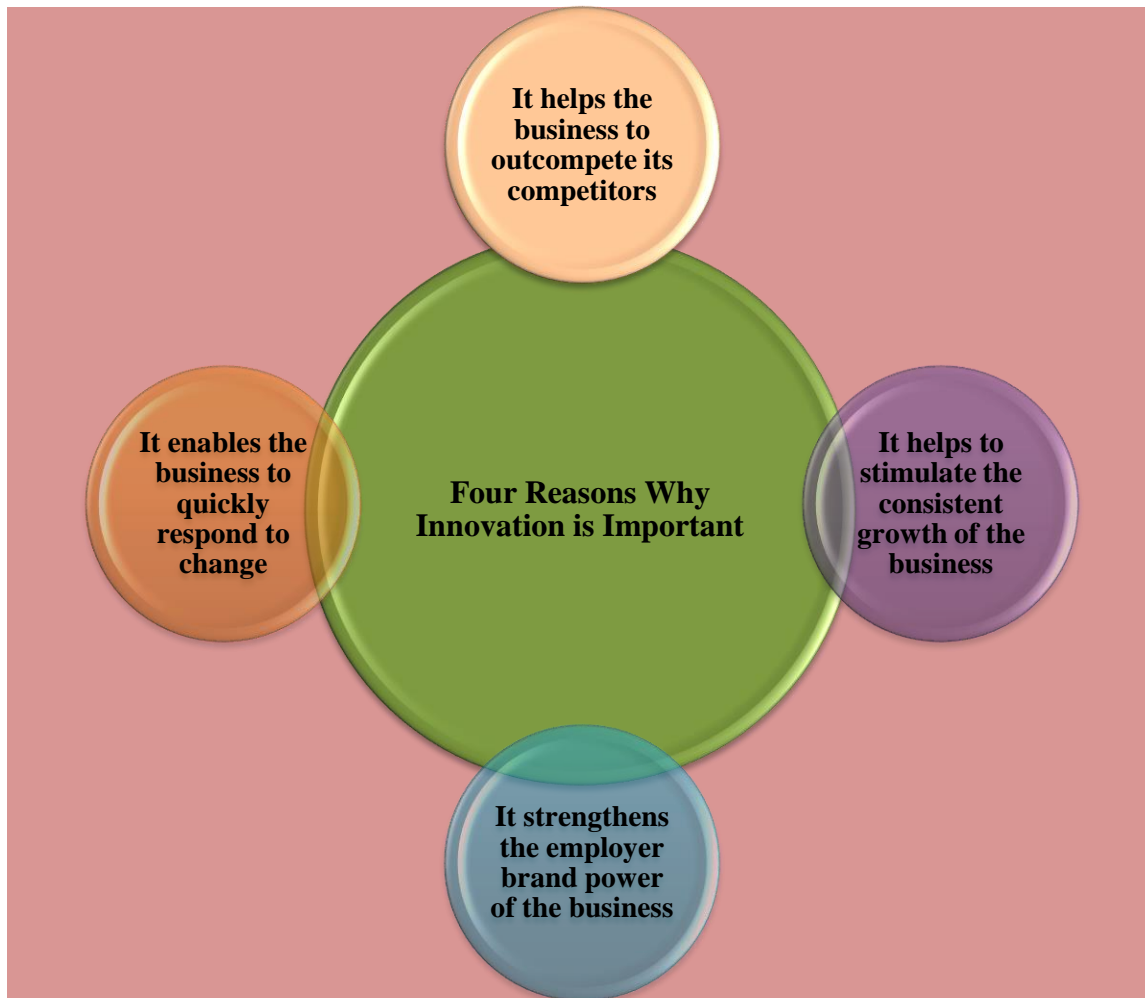
are selected because of demographic traits”²³³ (Russell Reynolds Associates, 2018, www.russellreynolds.com/). There are many reasons why innovation matters to a board and this will be covered in the following section.

8.5 Reasons why innovation is important to board of directors

There are several reasons why innovation is important to a business and these are depicted in Figure 8.1 below.

²³³ Russell Reynolds Associates (2018) *Different Is Better: Why Diversity Matters in the Boardroom*. Available from: www.russellreynolds.com/insights/thought-leadership/different-is-better-why-diversity-matters-in-the-boardroom

Figure 8.1 Four reasons why innovation is important



8.5.1 It helps the business to out-compete its competitors

Board of directors and the executive management of the organization have the sole responsibility of devising effective strategies that help the organization to outcompete its competitors through generating highly innovative ideas. Innovation that is implemented in the appropriate way will help the business to offer something new to its customers that solves a particular problem. *Innovation* also refers to the improvement, modification or a refinement of already existing products or services offered by the business to gain a competitive advantage and this is one common innovation strategy being used by leading innovators across the world.

8.5.2 It helps stimulate consistent growth of the business

One of the main aims of most of the profit-making organization's boards is to achieve the organization's growth plans through generating innovative ideas that stimulate the consistent growth of the business. It has since been discovered by leading researchers in the fields of entrepreneurship and business management that innovation helps to stimulate growth in a business of any size (*both small and large*). Innovation leads to the introduction of the following: (1) new products/services, (2) value adding technologies, (3) enhanced positive word-of-mouth advertising, (4) increased sales revenue and profit income to use to finance the business's expansion plans such as establishing new operational facilities in the country or in foreign markets and so on.

8.5.3 It strengthens the corporate brand power of the business

In today's highly globalized economy the art of business success is centered on the ability of an organization to innovate. A board that complies to an innovation centered culture is more likely to move the organization forward in terms of the introduction of new products/services, markets, technology, policies and so on in a manner that is in direct alignment with today's highly dynamic business environment. Transformative innovation practices in a business lead to growth due to increased sales revenue and profit income. Higher profit income enables the business to acquire new technologies that help to make the organization's transformation processes more efficient and of a better quality.

8.5.4 It enables the business and its board to quickly respond to change

Innovation matters to a board since it enables board members to quickly respond to change through making quick strategic decisions and actions where necessary. Nowadays change is now inevitable and this is mainly attributed by the rapid technological developments happening in the global business environment. The conclusion of this chapter will be covered in the next section.

8.6 Conclusion

The impact of globalization in the global marketplace is that it has made the global market to become more diverse thus making diversity a main priority of organizations and place more emphasis on board diversity. Nowadays diversity has become of utmost importance because of the rapidly changing demographic structure of the global workforce. Generally an organization that has a board of directors who embrace innovation as a way of life is more likely to prosper at its creativity initiatives. It can therefore be concluded that embracing change is one of the ways a board can show its commitment towards achieving the best interests of the organization. When innovation is implemented in the appropriate manner it often helps the business to offer something new to its customers by solving a particular problem.

8.7 Review questions

- (1) What is the meaning of the terms ‘innovation’, ‘change’ and ‘diversity & inclusion’?
- (2) Describe how change is a key benefit for every board?
- (3) Discuss the importance of diversity & inclusion in a board?
- (4) List and explain the reasons why innovation is important to a board of directors?

Chapter 9: Evaluating the performance of a board in an organization

After reading this chapter you should be able to:

- Define the terms ‘performance’, ‘evaluation’ and ‘assessment’.
- Describe the importance of board evaluations.
- Discuss the board assessment process. Outline some of the important questions for the board.
- Explain in-depth the type of questions an organization can ask its board in a Board of Director’s Self-Evaluation questionnaire?

9.1 Introduction

In general performance management is the process that helps to boost the board of directors’ morale so that they focus towards attaining the organization’s set strategic objectives and goals. Employee performance is critical in any organization and one of the simplest ways of ensuring that it is maintained is through implementing performance management. “A board of director’s success mirrors its ability to administer governance. However, board members may not always have the resources to monitor current economic trends and understand their impact on an organization. It is essential that directors gather information on useful strategies and relevant issues to help pose informed questions at board meetings, supply in-depth analysis and share feedback. For a corporation to successfully ensure its board of directors has the capacity and skills to provide strategic guidance, regular board evaluation is essential. An effective *board committee* can help by ensuring that the board of directors meets all of its professional expectations, including maintaining a relationship with the responsible Minister and ensuring successful board compliance”²³⁴ (Governance Professionals of Canada, 2018, <https://gpcanada.org/board-effectiveness>). “With attention on corporate governance and accountability increased by the global financial crisis, there is an expectation that the performance of boards and individual directors will be regularly evaluated. Past methods of

²³⁴ Governance Professionals of Canada (2018) *Board Effectiveness*. Available from: <https://gpcanada.org/board-effectiveness>

evaluating board success purely by reference to share price growth, CEO performance or the success of strategic initiatives are now understood to be inadequate. Whilst the success of the organisation is the ultimate goal, it does not follow that a successful organisation is the result of an effective board. Sometimes an organisation's success can be 'in spite of' rather than 'because of' the board. However, it is equally important that the more board-focused process of board evaluation does not become an unproductive and burdensome box-ticking exercise. Although these processes are now quite common, some directors are still resistant to the notion of board evaluation and especially of peer appraisal. This can be particularly so for unremunerated directors on not-for-profit boards, who may resent being evaluated themselves or resist evaluating their volunteer director peers. Hence it is critical to emphasise, preferably with leadership on the point from the chair, that board evaluation and director appraisal is not about critiquing one another but it is about continuous governance improvement. It is about ensuring that the board works as effectively as possible for the good of the organisation"²³⁵ (Australian Institute of Company Directors, 2016:1). The meaning of the term performance and evaluation will be discussed in detail in the following section.

9.2 Definition of the terms 'performance', 'evaluation' and 'assessment'

The word '*performance*' in the field of human resources management refers to the level that an individual or group of employees can attain job standards (Hunter, 2002:137). "Performance can apply to the way the job is done that is the work process and or the outputs" (Hunter, 2002:137). On the other hand the term 'evaluate' can interchangeably be used to refer to the word 'assess' since they both share the same meaning. The terms evaluation and assessment refer to the measuring of something to check if it is performing as expected or below expectations. In addition, the terms evaluation and assessment is whereby something is measured to check if it is performing normally or abnormal. The importance of board evaluations in an organization will be discussed in the following section.

²³⁵ Australian Institute of Company Directors, 2016, *Board evaluation and director appraisal*, Director Resources, Sydney, https://aicd.companydirectors.com.au/~media/cd2/resources/director-resources/director-tools/pdf/05446-2-1-director-tools-bp_board-evaluation-director-appraisal_a4_web.ashx, (accessed 4 Dec 2018).

9.3 Importance of board evaluations

“Board Evaluation. Regular board evaluation helps to ensure that board standards are maintained and the corporation is capable of ensuring long-term viability and credibility. This is true for both for-profit and not-for-profit Boards of directors. Board evaluations can assess the board’s collective knowledge base, ability, and commitment to fulfilling their responsibilities. This includes a solid understanding of the responsibilities of the board of directors under all relevant legislation, and the environment in which the corporation functions. Members of a board of directors may also be assessed on the fulfillment of their responsibilities for the stewardship of the corporation. A thorough board evaluation will determine board effectiveness and whether its members are acting in the best interests of the corporation and promoting the highest standards of corporate governance”²³⁶ (Governance Professionals of Canada, 2018, <https://gpcanada.org/board-effectiveness>). There are many advantages of board evaluations or assessments and these include the following:

- They help to ensure that the board of directors are accomplishing the organization’s set goals and objectives while simultaneously aligning these goals to the organization’s vision and mission statement,
- Board evaluations help to highlight the directors’ areas of weaknesses in order to determine their training needs and be able to successfully set accurate training objectives,
- The fundamental goal of board evaluations is to promote and improve director effectiveness,
- They help to ensure that the organization is consistently provided with clear and detailed useful feedback that identifies the areas of weaknesses of the board in general and some of the policies currently being implemented by the organization,
- They help to provide each board of director with an opportunity to clearly express their inner feelings, thoughts and personal view points of what they believe is the solution to the current challenges being faced by the board and the organization,

²³⁶ Governance Professionals of Canada (2018) *Board Effectiveness*. Available from: <https://gpcanada.org/board-effectiveness>

- They help the organization to identify poor performing and highly competent board of directors since such information is useful when making employment contract termination decisions,
- They help provide the organization with information to use in assessing its board of directors' recruitment, training & development processes are effective or not.
- They help to provide feedback on whether the current board compensation packages are highly competitive and effective to motivate the directors and commit to the organization,
- They help to create a clear line of communication between the board of directors and the organization about the board's fiduciary duties and accountabilities. Information about a board assessment process will be discussed in the following section.

9.4 The board assessment process

"The Assessment process. The nature of the assessment process for boards of directors varies widely - organizations should choose the methodology that best suits their operation. Regardless, the Chairman should choose the process with the support of the board of directors. Best practices for board committees suggest that the board compliance process should have four elements.

- 1). The participation of all individual directors to ensure a shared understanding and acceptance of the benefits of the board evaluation.
- 2). A well thought-out, systematic process to establish an effective board evaluation timeline.
- 3). Carefully selected board evaluation instruments to ensure that resulting information is valid, efficient and accurate.
- 4). A thorough follow-up to confirm that areas of concern have been addressed, and board evaluation information has reached the right people"²³⁷ (Governance Professionals of Canada, 2018, <https://gpcanada.org/board-effectiveness>). Questions that the board must first answer before conducting the board evaluation will be discussed in the following section.

²³⁷ Governance Professionals of Canada (2018) *Board Effectiveness*. Available from: <https://gpcanada.org/board-effectiveness>

9.5 The important questions for the board

*“The important questions for the board. There are a number of questions to clarify before commencing with a board evaluation: (1) What are the purpose and objectives of the evaluation? (2) What will be evaluated? (3) How will the evaluation be done? (4) What evaluation method will be used? (5) What should be the outcome?”*²³⁸ (Australian Institute of Company Directors, 2018:1). Furthermore, according to the Australian Institute of Company Directors (2018:2):

9.5.1 What are the purpose and objectives of the evaluation? The immediate objective is continuous governance improvement – identifying board performance improvement opportunities and governance framework gaps. Specific and/or longer term objectives may include developing team work, better decision making, improving the effectiveness of meetings, gaining greater clarity of roles.

9.5.2 What will be evaluated? The board evaluation exercise is ultimately about the effectiveness of the board and its component parts. Firstly, it’s important to clarify which of these component parts will be evaluated, and in each case what is to be evaluated. The potential component parts for evaluation comprise:

- The board as a whole – This assesses how well it is functioning – including in its key relationship with management – to deliver its governance role and functions, considered against the expectations of directors (for example, usually set out in the board’s own charter/role statement, etc.)
- The board’s committees – This assesses the adequacy of the board’s committee structure and how well they respectively function to support the board in its role, considered against the expectations of the committees (for example, the terms of reference/charters of committees, etc.)

²³⁸ Australian Institute of Company Directors ,2018, *Board evaluation and director appraisal*, Director Resources, Sydney, https://aicd.companydirectors.com.au/~media/cd2/resources/director-resources/director-tools/pdf/05446-2-1-director-tools-bp_board-evaluation-director-appraisal_a4_web.ashx, (accessed 4 Dec 2018).

- Individual directors – This assesses how well directors perceive themselves and each other to be contributing positively to the work of the board and the ways in which their contributions could be improved, considered against the expectations of directors (for example, the board’s composition matrix, code of conduct for the board, etc.)

- The chair of the board and chairs of committees – This assesses specifically how well the chair/s fulfil their role/s, considered against the expectations of those roles (for example, chair’s role statement and board/committee charters) (Australian Institute of Company Directors, 2018:2). Furthermore, according to the Australian Institute of Company Directors (2018:2):

9.5.3 How will the evaluation be done? Annual board evaluations are generally:

- Internally managed – Managed by the board chair or a relevant committee of the board, this can incorporate the use of available survey tools (for example, the AICD’s Governance Analysis Tool) and would usually include one-to-one meetings between the chair and each individual director. The benefit of the internally managed evaluation is that it is usually ‘lighter touch’ and less costly and less ‘confronting’ for directors.

- Externally facilitated – Using an external consultant to manage the process. Whilst it will generally be a more costly exercise than an internally managed process, the benefit is that it enables greater objectivity, encouraging complete candour by directors (and management) and a level of benchmarking, or at least comparison, to the good governance practices of other boards through the consultant’s wide exposure to other boards and their practices²³⁹ (Australian Institute of Company Directors, 2018:2). Furthermore, according to the Australian Institute of Company Directors (2018:2):

9.5.4 What should be the outcome? Once the board evaluation and/or director peer assessment process has been completed, the resulting improvement actions should be agreed by the board, in the form of a board improvement action plan. Where the process has included appraisal of

²³⁹ Australian Institute of Company Directors ,2018, *Board evaluation and director appraisal*, Director Resources, Sydney, https://aicd.companydirectors.com.au/~media/cd2/resources/director-resources/director-tools/pdf/05446-2-1-director-tools-bp_board-evaluation-director-appraisal_a4_web.ashx, (accessed 4 Dec 2018).

individual directors, personal director development plans may also result. The board improvement action plan, like all performance appraisal approaches, should include specific and measurable KPIs and the chair of the board, or a relevant committee of the board, perhaps with support from the company secretary, should be responsible to oversee its implementation over the ensuing year. In this way the board's improvement action plan forms the basis, or at least the starting point, for the following year's board evaluation process. Underperforming directors that are identified through the board evaluation process should be carefully counselled by the chair or, in cases where there are issues of concern about the chair's performance, by one of the appropriate directors – perhaps the deputy chair or the chair of a relevant committee²⁴⁰ (Australian Institute of Company Directors, 2018:2). The following section will cover all the aspects that are covered in a board of director self evaluation process.

9.6 Aspects covered in a board of directors' self-evaluation process

There are many tools that have been developed by organizations, business management gurus, academics and industrial psychologists to use in evaluating the performance of a board. The various tools that are available today for organizations to use in evaluating a board's performance will be covered in the following section.

9.6.1 What to ask in a Board of Directors Self-Evaluation questionnaire

There are numerous questions that can be used to gather the right feedback and information about the current perceptions, attitude and performance of a board. A good example is that of a list of questions that are used during the self evaluation of board of directors published by the Switzerland-based International Centre for Corporate Governance and these are depicted in Table 9.1 below (International Centre for Corporate Governance, 2018, <https://www.icfcg.org/best-practice/49-bod-selfevaluation.pdf>). In the following Table 9.1 the abbreviation 'EM' refers to executive management and 'BoD' refers to board of director.

²⁴⁰ Australian Institute of Company Directors ,2018, *Board evaluation and director appraisal*, Director Resources, Sydney, https://aicd.companydirectors.com.au/~media/cd2/resources/director-resources/director-tools/pdf/05446-2-1-director-tools-bp_board-evaluation-director-appraisal_a4_web.ashx, (accessed 4 Dec 2018).

Table 9.1 Typical questions used in a Board of Directors Self-Evaluation Questionnaire

Board of Directors Self-Evaluation Questionnaire, as of 2010	
<p>1.0 Composition and Remuneration of the BoD</p> <p><i>1.1 Is the current number of board members appropriate?</i></p> <p><i>1.2 Is the current composition of the board, with regard to the necessary expertise, appropriate?</i></p> <p><i>1.3 Do members of the board work constructively in a team?</i></p> <p><i>1.4 How do you assess the succession planning of the BoD?</i></p> <p><i>1.5 Is the financial compensation you have received in the previous year appropriate?</i></p>	<p>2.0 Task performance by the BoD</p> <p><i>2.1 What is your assessment of your ability to make time commitment to fulfill BoD duties?</i></p> <p><i>2.2 What is your assessment of BoD commitment in setting of corporate strategy?</i></p> <p><i>2.3 How would you rate the appropriateness of the company's strategy in relation to the current economic situation?</i></p> <p><i>2.4 What is your assessment of the liquidity and financial planning at the BoD level?</i></p> <p><i>2.5 How do you rate the quality and scope of monthly reporting to the BoD?</i></p> <p><i>2.6 What is your assessment of your own knowledge about the company's core business?</i></p> <p><i>2.7 What is your assessment of the ways in which tasks are allocated within the board?</i></p>
<p>3.0 Cooperation with Executive Management</p> <p><i>3.1 How do you evaluate the current design of the management organization against the organizational chart?</i></p> <p><i>3.2 What is your assessment of the current composition of the EM in terms of functional performance?</i></p> <p><i>3.3 What is your assessment of cooperation between the</i></p>	<p>4.0 Management of Meetings</p> <p><i>4.1 What is your assessment of the board meetings taking into the consideration the company's situation?</i></p> <p><i>4.2 What is your assessment of documentation provided for your preparation for the meeting?</i></p> <p><i>4.3 What is your assessment of the BoD members' level</i></p>

<p><i>BoD and EM with regards to exchange of information?</i></p> <p>3.4 <i>What is your assessment of the objectives set by the BoD for the EM against last financial year?</i></p> <p>3.5 <i>What is your assessment of the BoD's knowledge about employment contracts of the members of the EM?</i></p>	<p><i>of preparation for the meeting?</i></p> <p>4.4 <i>What is your assessment of chairman's management of BoD meetings?</i></p> <p>4.5 <i>What is your assessment of how board members handle conflicts of interest?</i></p> <p>4.6 <i>What is your assessment of the decision making by the board?</i></p> <p>4.7 <i>What is your assessment of the quality of the minutes of the BoD meetings?</i></p>
<p>5.0 Critical Success Factors</p> <p>5.1 <i>What is your assessment of the BoD knowledge of the opportunities and risks of the company?</i></p> <p>5.2 <i>What is your assessment of BoD knowledge with regards to strengths and weaknesses of the company?</i></p> <p>5.3 <i>What is your assessment of the board's contributions towards the success of the company in the past fiscal year?</i></p> <p>5.4 <i>What is your assessment of the board's commitment to address current challenges?</i></p>	<p>6.0 Relationship with stakeholders</p> <p>6.1 <i>What is your assessment of the considerations given to customers' interests?</i></p> <p>6.2 <i>What is your assessment of the considerations given to interests of shareholders?</i></p> <p>6.3 <i>What is your assessment of considerations given to interests of employees?</i></p> <p>6.4 <i>How do you assess the company's relationship with banks?</i></p>

Source: Modified: (International Centre for Corporate Governance, 2018, <https://www.icfcg.org/best-practice/49-bod-selfevaluation.pdf>)

The conclusion of this chapter will be covered in the next section.

9.7 Conclusion

Board of directors' performance is critical in any organization and one of the simplest ways of ensuring that it is maintained is through implementing performance management. When a board is managed effectively it is able to achieve its set goals and objectives. Thus continuous board evaluations help to administer the governance of boards and this helps to ensure that the board has long term credibility. One of the advantages of board evaluations or assessments is that it

helps to ensure that the board of directors' are accomplishing the organization's set goals and objectives while simultaneously aligning these goals to the organization's vision and mission statement. It can be concluded that the main aim of board evaluations must first be understood by all parties concerned, including the key areas that will be evaluated and the method of evaluation that will be used so that transparency is maintained.

9.8 Review question

- (1) What is the meaning of the terms 'performance', 'evaluation' and 'assessment'?
- (2) Explain in-depth the importance of board evaluations?
- (3) Describe the board assessment process? List some of the important questions for the board?
- (4) Explain in-depth the type of questions an organization can ask its board in a Board of Director's Self-Evaluation questionnaire?

Chapter 10: Global topics related to board of directors

After reading this chapter you should be able to:

- Describe traits or characteristics of an outstanding board.
- Highlight the various ways board of directors influence business growth.
- Describe the importance of trust in a corporate board.
- Identify the common myths about board of directors.

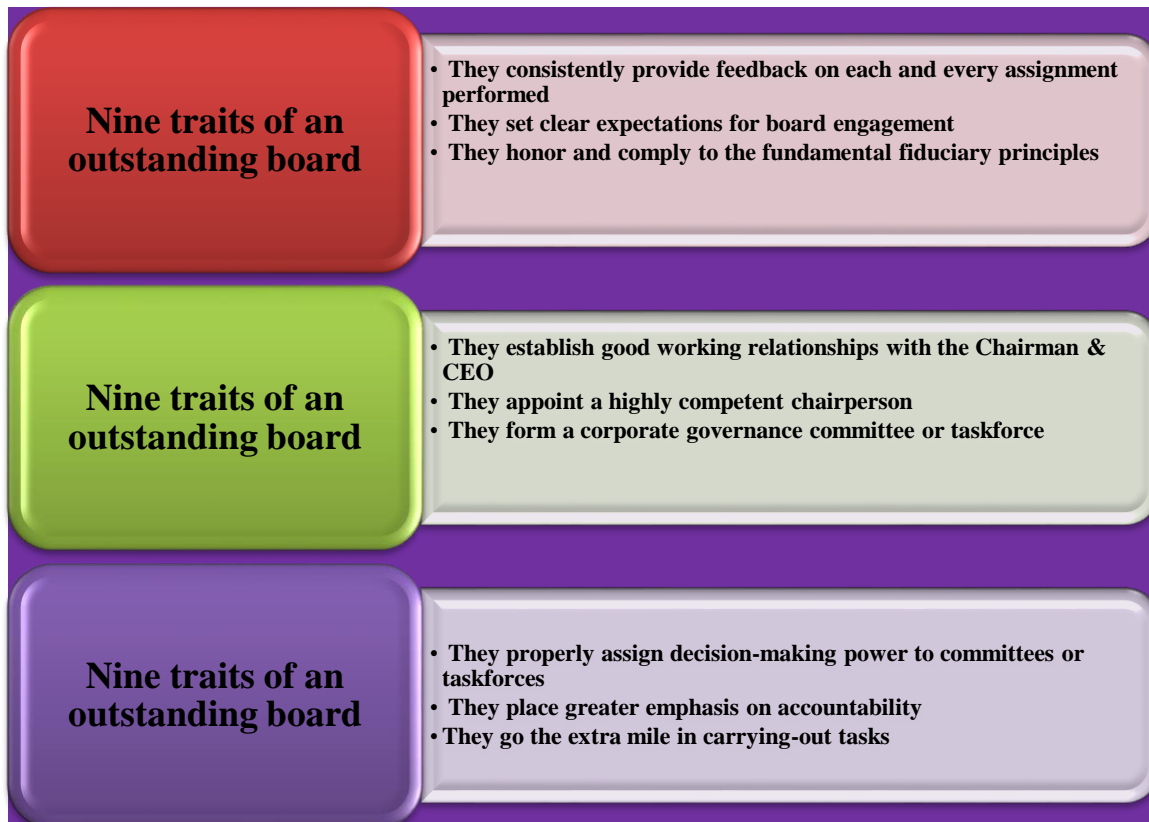
10.1 Introduction

Once in a while in the mass media there is always a business news headline about a corporate board that has been dismissed for incompetency or breach of contract and this is one good indicator that more needs to be done in the board of director professional development. Almost all the effective boards in organizations located in different parts of the world whether non-profit making or profit-making tend to share certain common characteristics. An organization that wants to have a highly engaged and effective board must first conduct in-depth research on the traits that are associated with effective boards in order to adopt some of the basic concepts or principles in its director training programs. Generally effective boards often have members who have good working relationships which are based on trust. Interestingly, trust can only be granted to an individual after he/she has successfully proved themselves to be trustworthy and reliable thus trust is one of the most important elements cementing the success of most of the world's highly effective corporate boards. The traits of an outstanding board will be covered in the following section.

10.2 Traits or characteristics of an outstanding board

There are several traits or characteristics that are associated with a highly effective and engaged board. Some of the traits or characteristics are depicted in Figure 10.1 below.

Figure 10.1 Nine traits of an outstanding board



Source: Modified: (Davidson, 2018, www.boardcoach.com/; Legon, 2014, www.agb.org/)

10.2.1 They consistently provide feedback on each and every assignment performed

One of the main characteristics of a highly engaged and effective board is that whenever board members successfully complete an assignment of a particular committee such as the compensation and nominations committee the key findings are discussed in detail during the next board meeting in order to fully up-date all the members and be able to decide on the way forward.

10.2.2 They set clear expectations for board engagement

According to Davidson (2018) there are explicit expectations for board engagement. Expectations for board members are taken as seriously as job expectations for staff, including:

- Annual performance reviews with each board member

- A process for board members to develop personalized objectives
- Public recognition for high performance
- Recommendations for re-nomination are based on performance
- Exit interviews are conducted with departing board members
- There are opportunities for the continued engagement of retiring board members²⁴¹ (Davidson, 2018, www.boardcoach.com/).

10.2.3 They honor and comply to the fundamental fiduciary principles

Successful boards often honor and comply to the fiduciary responsibilities of care, loyalty and obedience when carrying out their day-to-day tasks in the organization. They also ensure that they recognize the fact that (1) they are the highest decision-making authority in an organization, (2) they must act independently and responsibly in making policy decisions, (3) they must consistently act in the best interests of the organization and its mission statement²⁴² (Legon, 2014, www.agb.org/).

10.2.4 They establish good working relationships with the Chairman & CEO

The majority of the most successful conglomerates in the world have boards that have strong working relationships with their chairman and the CEO to be able to achieve excellent work results in order to fulfill both the organization and the shareholders' best interests. Effective boards ensure that they form a partnership relationship with both the chairman and the CEO to consistently gain their focus and full support (Legon, 2014, www.agb.org/). "Effective boards, while strategically engaged, will look to the CEO to set a course and establish a vision. Ultimately the objective of strategic governance is to achieve a level of mutual objectives, but

²⁴¹ Davidson, M. (2018) *Traits of Highly Engaged Boards*. Available from; http://www.boardcoach.com/index.php/resources/detail/traits_of_highly_engaged_boards

²⁴² Legon, R. (2014) *The 10 Habits of Highly Effective Boards*. Available from: <https://www.agb.org/trusteeship/2014/3/10-habits-highly-effective-boards#> [Accessed 2018, 24 November] Copyright 2014, Association for Governing Boards of Universities and Colleges. This article originally appeared in the March/April 2014 issue of *Trusteeship* magazine. Reprinted with permission.

effective boards must put a high degree of trust in the leadership they selected with the expectation that strategic goals will be achieved. It is a balancing act: Boards should enhance engagement in the areas where they must participate and be accountable for overall outcomes, while also supporting strong leadership” (Legon, 2014, www.agb.org/).

10.2.5 They appoint a highly competent chairperson

One of the common traits of highly effective boards is that they ensure that they consistently appoint chairpersons with the right leadership qualities, skills, qualifications and expertise. “Board chairs are selected for a variety of reasons: stature, trust, leadership skills, external connections, length of service, gubernatorial influence, personal philanthropy, and others. But such criteria may not be what’s needed in this era of constant change. A high-performing board requires a leader who can support and facilitate a model of strategic governance, develop an essential and candid relationship with the chief executive officer, have the respect of his or her board colleagues, understand and respect academic culture, and ensure that the full board is focused on issues that matter”²⁴³ (Legon, 2014, www.agb.org/).

10.2.6 They form a corporate governance committee or taskforce

A positive image of a board in the marketplace can only be attained if the board practices acceptable and accountable board governance standards. “No other board committee is as essential to overall board structure and accountability as this one. And, the selection of the governance committee’s chair should be no less important than the selection of the chair of the board. Done correctly, the governance committee can have an enormous impact on strategic governance and improve board performance significantly. Boards must monitor their own overall performance and take seriously the behavior and ethics of their members. High-performing boards ensure that institutional policies about trustee responsibilities, ethical behavior, and

²⁴³ Legon, R. (2014) *The 10 Habits of Highly Effective Boards*. Available from:

<https://www.agb.org/trusteeship/2014/3/10-habits-highly-effective-boards#> [Accessed 2018, 24

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conflicts of interest are current and enforced. An active governance committee should monitor and act upon any lapses” (Legon, 2014, www.agb.org/).

10.2.7 They properly assign decision-making power to committees or taskforces

A critical element of success to any committee is having the ability or power to make decisions and as a result positive work results are easily attained (Legon, 2014, www.agb.org/). “Boards that engage in strategic governance allocate a span of policy-making authority to standing committees while enabling the full board to focus on more strategic issues. Boards should trust that committees will do important work and have a substantial ability to present action decisions and recommendations that are fully vetted” (Legon, 2014, www.agb.org/).

10.2.8 They place greater emphasis on accountability

Today the most highly effective boards acknowledge that they are accountable for the organization’s most basic principles such as strategic planning, policy-making, risk management and so on²⁴⁴ (Legon, 2014, www.agb.org/).

10.2.9 They go the ‘extra mile’ in carrying-out their tasks

Notably, effective board of directors are highly focused and willing to go the ‘extra mile’ in carrying-out their day-to-day work tasks. There is a modern-day saying: ‘*Hard work pays dearly at the end of the day to the extent that it motivates an individual to continue to do better than what they accomplished the day before or tomorrow*’ (Rudolph. Patrick. T. Muteswa, 2018). When you are appointed to become a board of director you must be prepared to consistently go the ‘extra mile’ since many people depend on your better judgement or competency namely: employees, management, shareholders and other stakeholders of the organization (*customers, suppliers, distributors, government and so on*). As a result board of directors’ often ensure that

²⁴⁴Legon, R. (2014) *The 10 Habits of Highly Effective Boards*. Available from:

<https://www.agb.org/trusteeship/2014/3/10-habits-highly-effective-boards#> [Accessed 2018, 24

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they conduct their duties with a high level of professionalism and care in order to achieve the goals/objectives of the organization and the best interests of the shareholders. The various ways boards influence business growth will be covered in the following section.

10.3 Ways board of directors influence business growth

In general there are several ways board of directors influence business growth and these are depicted in Figure 10.2 below.

Figure 10.2 Four ways board of directors influence business growth



10.3.1 They help to establish effective communication in the organization

The communication of new policies and plans from the board of directors to the executive management and employees must be done on a continuous basis in order to inspire a shared vision, purpose and instill a spirit of teamwork in the organization. A board with effective communication skills can easily motivate employees to perform beyond expectations and in

return this helps the organization to increase its productivity levels which lead to high profit income yields that can be used to finance the set growth plans of the organization.

10.3.2 Good corporate governance practices

An organization that has a board of directors who practice good corporate governance is more likely to gain credibility and a good reputation in the marketplace. In addition a positive reputation of good corporate governance automatically strengthens the employer brand status of the organization and this helps the organization to attract highly talented people who can add more value into the organization so that it grows. Board of directors who comply to the organization's corporate governance code and rules earn the respect of employees as they are seen as exemplary leaders who walk-the-talk and this greatly motivates the workforce to achieve better results which helps the organization to meet its set growth objectives.

10.3.3 They provide strategic oversight and thinking

Board of directors due to their high expert knowledge, intelligence and analytical skills they can easily conduct business analysis, devise new business strategies and contingency plans for the organization. When the organization creates better business strategies it is able to increase its sales levels and profits income to use to finance its growth plans such as establishing a new manufacturing facility in a foreign market and so on.

10.3.4 They help to provide new business contacts

Business networking has become a must due to the globalization of the world, fast paced change in the operating business environment. When a new board of director is appointed he/she brings in new business contacts into the organization to help create new business opportunities for the organization in order to boost its current market share and sales levels²⁴⁵ (Collard, 2013, '*You Need These Folks: Six Ways Outside Directors Impact Business Growth*'). Available from: <http://www.abfjournal.com/articles/you-need-these-folks-six-ways-outside-directors-impact->

²⁴⁵ Collard, J. (2013) *You Need These Folks: Six Ways Outside Directors Impact Business Growth*. Available from: <http://www.abfjournal.com/articles/you-need-these-folks-six-ways-outside-directors-impact-business-growth/>

[business-growth/](#)). “Your contact book doesn’t include everyone. Outside directors can extend the company’s reach by using their own contact network of colleagues that can get involved to provide guidance and resources. *Capital Infusion*. Outside directors often have a database of contacts who can supply capital, both in the form of debt (*lenders*) and/or equity (*investors*). This means that you can get in front of many financing resources quickly once an expression of interest or offering package is ready. Like with raising capital, outside directors often have a database of contacts who both have deals for acquisition and who are looking for opportunities to buy” (Collard, 2013, ‘*You Need These Folks: Six Ways Outside Directors Impact Business Growth*’. Available from: <http://www.abfjournal.com/articles/you-need-these-folks-six-ways-outside-directors-impact-business-growth/>). The importance of trust in a board will be discussed in greater detail in the next section.

10.4 Importance of trust in a corporate board

“On one level, people understand trust as a character trait that is made up of other character traits such as honesty, integrity, authenticity, transparency, fairness, caring and reliability. Questions of trust are central to literally every decision that human beings make, from buying a washing machine to selecting a marriage partner. Trust itself is priceless, but the loss of trust imposes measurable costs. Trust cannot be demanded; it must be earned. It cannot be requested; it must be demonstrated. Trust is one of those concepts that is often experienced by its absence. The withdrawal or denial of trust is a memorable experience that most people recognize. Trust is the foundation for all successful leaders”²⁴⁶ (Kador, 2018, <https://boardmember.com/>).²⁴⁷ According to Dr. Chris Goldspink and Dr. Robert Kay cited in Australian Institute of Corporate Directors (AICD) (2016:5) in the 2015 AICD study, it was found that trust underpinned or enabled the decision-making team (comprising the board and executive) to maintain:

²⁴⁶ Kador, J. (2018) *Defining Trust and How to Achieve It*. Available from: <https://boardmember.com/defining-trust-achieve/>

²⁴⁷ Australian Institute of Corporate Directors (2016) *The role of trust*, Resources, Sydney, https://aicd.companydirectors.com.au/~/_/media/cd2/resources/advocacy/governance-leadership-centre/pdf/05611-1-pol-glc-role-of-trust-whitepaper-aug16-a4_web.ashx, (accessed 4 Dec 2018).

- Diversity of views and experiences;
- Independence of mind; and
- Openness to alternatives.

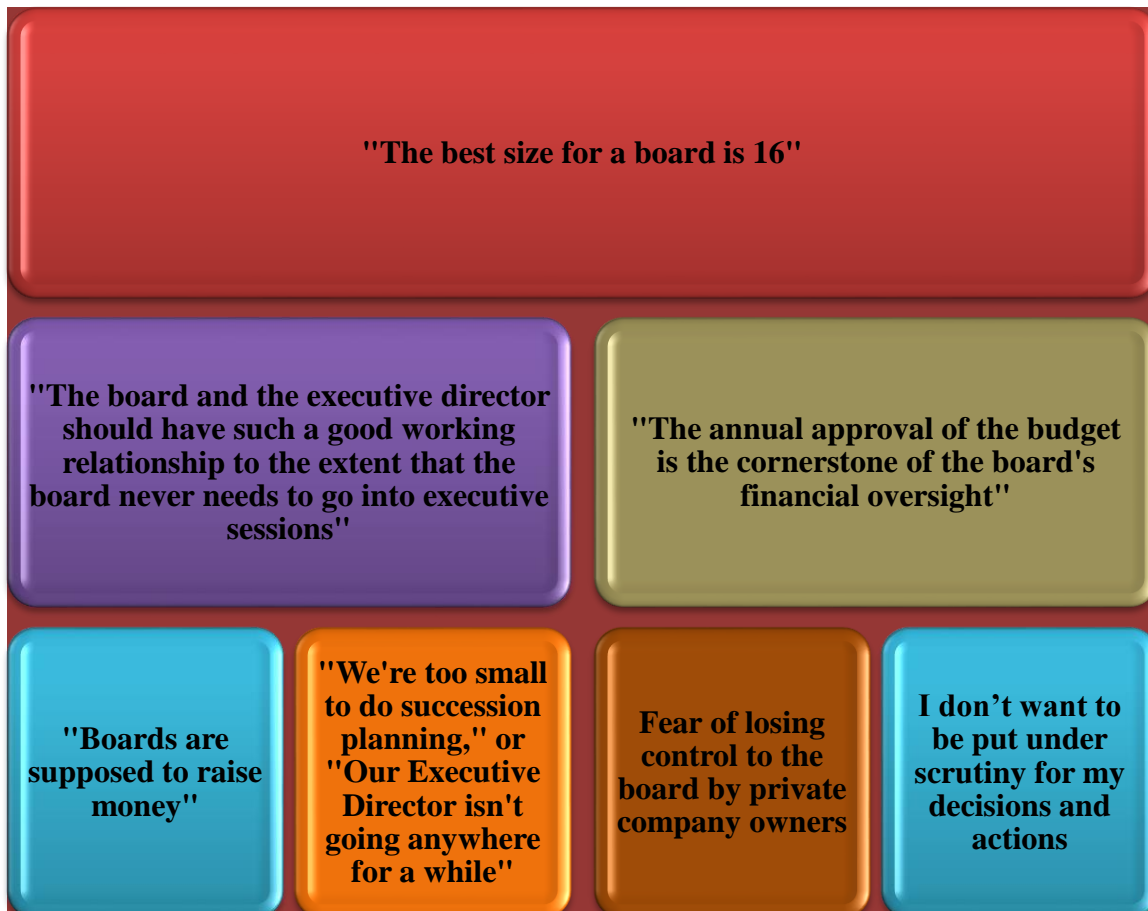
These factors were found to support the capacity of the board to make effective decisions and, in this sense, it could be argued that the board provides a reflective capacity for the executive as its distinctive role in the broader team (Dr Chris Goldspink and Dr Robert Kay cited in Australian Institute of Corporate Directors, 2016:5).²⁴⁸ Furthermore, according to the Australian Institute of Corporate Directors (AICD) (2016:9) people with similar backgrounds and experiences are more likely to share similar values, beliefs and assumptions. This will be conducive to more open exchanges and sharing of views and, therefore, collegiate relationships. However, this pathway to collegiality may come at the expense of diversity. The Chairs interviewed for the AICD study saw diversity of views as fundamental to better decision-making and therefore performance. They were conscious of the need to maintain and encourage diversity of views on their boards by recruiting directors with different backgrounds or perspectives. A person is trusted when the person granting the trust has (based on experience) formed a judgment that he or she can rely on that person to respond in a predictable way (under certain conditions). In this sense, trust is an expectation or prediction of an outcome based on knowledge of the people and processes involved (Australian Institute of Corporate Directors, 2016:9). The various common myths about boards will be covered in the following section.

10.5 Common myths about board of directors

The word ‘*myth*’ is often used to refer to misleading: (1) facts, (2) perceptions, (3) thoughts, (4) mindset, (5) ideologies, (6) assumptions and so on. In addition the term ‘*executive director*’ is often abbreviated as ‘*ED*’ in various information sources. There are several common myths about board of directors and these are depicted in Figure 10.3 below.

²⁴⁸ Australian Institute of Corporate Directors (2016) *The role of trust*, Resources, Sydney, https://aicd.companydirectors.com.au/~media/cd2/resources/advocacy/governance-leadership-centre/pdf/05611-1-pol-glc-role-of-trust-whitepaper-aug16-a4_web.ashx, (accessed 4 Dec 2018).

Figure 10.3 Seven common myths about boards



Source: Modified: (Masaoka, 2011, <https://blueavocado.org/>; Yee cited in Private Company Director Magazine, 2018, <http://www.privatecompanydirector.com/>).

²⁴⁹²⁵⁰“**Myth:** *The best size for a board is 16.* Reality: Well, that's the average size. (Do you want to be average?) There isn't a "best" size for a board. Research shows that small boards think they should be bigger and big boards think they should be smaller. Size depends on:

- What the organization needs the board to do at this time in its history
- How many people the executive director and the staff can support

²⁴⁹ In addition the term 'executive director' is often abbreviated as 'ED' in various information sources.

²⁵⁰ Masaoka, J. (2011) *Ten Myths About Nonprofit Boards*. Available from: <https://blueavocado.org/board-of-directors/ten-myths-about-nonprofit-boards/>

- The size of the room at your organization where the board meets (really!)”” (Masaoka, 2011, <https://blueavocado.org/>).

“Myth: The board and the executive director should have such a good working relationship that the board never needs to go into executive session. Reality: Executive sessions are important for:

- ED evaluation
- Airing of tentative views
- Board’s gaining a sense of itself

And whether or not the executive director is a member of the board, the board always has the authority to go into session without staff present”²⁵¹²⁵² (Masaoka, 2011, <https://blueavocado.org/>).

“Myth: The annual approval of the budget is the cornerstone of the board's financial oversight.

Reality: Budget approval is often a meaningless act. Most of the time board members can't be familiar enough with details to know whether the income is accurately projected and whether the expenses represent sound choices. Instead:

- Give guidelines to staff for where the organization needs to be financially at the end of the year
- Focus on monitoring through the year rather than trying to ferret out details in a complex budget before voting to approve it” (Masaoka, 2011, <https://blueavocado.org/>).

“Myth: Boards are supposed to raise money. Reality: Actually, nonprofits are required by law to have boards (as are for-profit corporations) in order to hold the organization accountable to the public (not to raise money). And, in addition, boards don't raise money. Board members raise money. The board approves a plan for how the organization will obtain funds (in its approval of the budget) through some combination of donations, earned income, grants, etc. Then individual

²⁵¹ Masaoka, J. (2011) *Ten Myths About Nonprofit Boards*. Available from: <https://blueavocado.org/board-of-directors/ten-myths-about-nonprofit-boards/>

²⁵² In addition the term ‘executive director’ is often abbreviated as ‘ED’ in various information sources.

board members help with the plan by obtaining donations, making connections for earned income and grants, and so forth” (Masaoka, 2011, <https://blueavocado.org/>).

“**Myth:** *We're too small to do succession planning," or "Our ED isn't going anywhere for a while."* Reality: This myth reflects an outdated view of succession planning built on identifying and grooming a successor on staff. In today's nonprofits it means:

- Making the *ED* job do-able (it's hard to replace a superhero, but it's not as hard to replace an excellent executive director)
- Bringing staff salaries to competitive levels
- Recruiting board members who will be good at hiring, not just good at supporting the current *ED*”^{253,254} (Masaoka, 2011, <https://blueavocado.org/>).

Myth: *fear of losing control to the board by private company owners.* Generally some of the private companies that have been managed as family businesses tend to believe misleading myths that if they appoint a board of directors they will lose control of their private company. “I often hear the concern that a CEO (who is very often also the major shareholder) is afraid of losing control because they have to cede authority and decision making power to a board of directors. In fact, you can actually gain control. As noted earlier, with a properly established, chartered and composed board, you can actually gain more control over an uncertain future with inevitable transitions in your industry and company, whether it’s industry disruption, a change of ownership or new generations of family leaders. As a leader and owner, you have the opportunity (and the control) to establish the right board vision, ground rules and key areas of board oversight and approvals (most often in the areas of affirming strategy and supporting budgets, major transactions in financing or acquisitions, incentive and reward programs and leadership succession planning). In reality, high performance private company boards play a business building oversight role, provide insight and advice, only make formal approvals

²⁵³ Masaoka, J. (2011) *Ten Myths About Nonprofit Boards*. Available from: <https://blueavocado.org/board-of-directors/ten-myths-about-nonprofit-boards/>

²⁵⁴ In addition the term ‘*executive director*’ is often abbreviated as ‘*ED*’ in various information sources.

consistent with its charter, and never run the business” (Yee cited in Private Company Director Magazine, 2018, <http://www.privatecompanydirector.com/>).

Myth: I don't want to be put under scrutiny for my decisions and actions. In most private owned companies the owner-manager fear appointing board of directors due to the fact that they do not want to be put under scrutiny for their decisions or actions they take on the job by the board. “CEO’s don’t want to be second guessed, even if they want open discussion and debate amongst their leadership teams and with board directors. Similar to the prior loss of control point, CEO’s want to make the call and have the strong support of their leadership team and board of directors. Great boards debate constructively and bring perspective and insight to high performance business growth and critical decisions”²⁵⁵ (Yee cited in Private Company Director Magazine, 2018, <http://www.privatecompanydirector.com/>). The conclusion of this chapter will be covered in the next section.

10.6 Conclusion

It can be concluded that an organization that wants to have a highly engaged and effective board it must first conduct in-depth research on the traits that are associated with effective boards nowadays in order to adopt some of the basic concepts or principles in its director training programs. Some of the characteristics that are associated with a highly effective and engaged board include: they consistently provide feedback on each and every assignment performed and they set clear expectations for board engagement. There are several ways board of directors influence business growth and these include: they help to establish effective communication in the organization and the practice of good corporate governance practices. Nowadays board of directors’ have the duty to comply with corporate governance codes including paying more attention to developing healthy corporate culture structures. Every relationship in a boardroom is founded on trust and anyone in the organization can only be trusted by their colleagues if he/she has earned their trust since it cannot be demanded.

10.7 Review question

²⁵⁵ Yee, D. (2018) *Top Five Myths About Private Company Boards*. Available from: <http://www.privatecompanydirector.com/news/top-five-myths-about-private-company-boards>, Published by Private Company Director Magazine

- (1) Identify the traits or characteristics of an outstanding board?
- (2) Describe the various ways board of directors influence business growth?
- (3) Explain the importance of trust in a corporate board?
- (4) Discuss the common myths about board of directors?

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