

**The Importance of Human Resources Management &
Business Leadership in the Boardroom (*Gathered
Articles*): A North America, Asia, Africa, Oceania &
Europe Perspective 1st Edition**

RUDOLPH.PATRICK.T.MUTESWA

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FIRST EDITION

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Rudolph. Patrick. T. Muteswa

BBA, BCom Honors & MCom (UKZN South Africa)

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PREFACE TO THE FIRST EDITION

Traditionally the human resources management function is viewed as the life blood of each and every organization since it deals with all people related aspects in the organization. People make the organization and without people an organization does not exist nor function in a productive way. A highly functional board must be comprised of one or more human resources management experts who have permanent seats in the board in order for them to continuously guide the organization towards fulfilling its human resources needs, goals, development plans and strategy. The human resources management function can only successfully add value to the organization through: aligning its human resources strategy to the corporate strategy; developing effective human resources policies and strategies; coordinating and integrating its various human resources activities with other functional departments; upholding good corporate governance and ethics standards; receiving adequate support from the board and executive management and so on. The purpose of this book is to educate readers about the role played by the human resources management expert in a board. Furthermore, effective business leadership is another critical ingredient that helps to produce highly functional boards nowadays since the leadership qualities of the board of directors significantly determine their ability to guide the organization towards achieving its mission statement and vision. Another purpose of this book was to introduce readers to the basic: human resources management activities, roles & functions of a board and how to conduct the recruitment of board of directors in both profit-making and non-profit making organizations. The other aim of this book was to highlight how the ethics function can collaborate with the human resources function since this is one of the key responsibilities of a human resources management expert in a board. In addition this textbook placed more emphasis on highlighting the role played by human resources management experts in designing and implementing board training activities in their capacity as members of governance, nominations or remuneration committees in a board. While on the other hand this book also aimed to highlight the positive impact of board training in areas such as ethics & compliance, governance, innovation and public relations skills a board can enjoy as a result of continuous training. Lastly, another aim of this book was to contribute to the board of director profession, field of human resources management & business leadership focusing on the development of a board of director 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 so on. 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 strategic importance of the human resources management experts in a board and the organization as a whole since a book is ‘*a source of wisdom*’. Furthermore, 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: How functional departments - contribute to the success of the organization & the introduction to human resources management

After reading this chapter you should be able to:

- Define the following terms: specialization, departmentalization, functional department, human resources management, marketing, accounting, operations management, research & development. Explain the meaning of the job title abbreviation CINO.
- Draw and label an organizational structure and functional departments in an organization. Identify the advantages of functional departments in an organization. Explain the reasons why boards must have a specialist from each functional department in the organization.
- Describe the role played by the different functional departments to contribute to the overall success and the innovation agenda of an organization. Explain what is human resources management and the role played by the human resources function in improving business performance.
- Describe the meaning of the term strategic human resources management. Outline some of the human resources department activities.
- Discuss the importance of human resources management.

1.1 Introduction

The most critical ingredient or driver of prosperity in any type of organization in terms of achieving good corporate governance, high quality management, profitability and effective branding strategies is its 'board of directors'. Generally an organization's board of directors play a critical role in ensuring that the organization: (1) successfully aligns its corporate strategy to its various business functions, (2) it continuously aims to enhance its 'employer brand' status in the labour market, (3) it continuously enhances both its market position and market value in order to consistently attain its set operational and profitability goals. Boards that are highly effective often adapt a general rule that in each and every board meeting they must analyze or discuss any input of ideas or useful information that has been submitted by all the organization's departments

on all matters related to the organizations' processes, systems, policies and plans. In general 'an organization is a system that is composed of interrelated parts' (Hunter, 2002:6). "Within the process part of the system there are usually various elements or subsystems working together to convert the inputs into outputs. In the example, we could view the various departments such as production, stores, administration and distribution departments as subsystems. The way these subsystems operate is to provide inputs to each other so that the total system operates effectively"¹ (Hunter, 2002:6). Each and every functional department in the organization has its strategy that forms part of the business strategy for instance, human resources strategy, marketing strategy, operations strategy, research & development (*R&D*) strategy and so on all form a corporate/business strategy. Thus, 'an organization's board' is the key driver or central point of the organization's system where all the critical decisions, ideas and innovations that shape the future of the organization are made in order to: represent shareholder's interests, increase both the market/customer value and business performance. Innovative ideas from the board of directors often succeed when they are implemented and this is also due to the fact that some of these ideas are comprised of input from the various departments in the organization such as human resources management, marketing, research & development (*R&D*), operations management, finance, information & technology (*IT*) and so on. On the other hand people related problems at the workplace are becoming more complex on a daily basis and the need to manage people has gained value globally. The following section will cover the definition of terms that will be discussed in this chapter.

1.2 Definition of terms

Most of the words that are used in the business field nowadays have numerous definitions that have been developed by industry experts and academics. '*Specialization*' refers to the separation of labour into different tasks based on the individual's knowhow of performing these tasks/duties and this maybe done at the workplace (Rudolph. Patrick. T. Muteswa, 2019). The term '*departmentalization*' is when an organization places jobs into groups in order to form working

¹ Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management*. Pietermaritzburg: Bytes Document Solutions.

units that are known as departments, units or divisions² (Ferrell and Hirt, 2000:194). In addition the term a '*functional department*' refers to the placing of jobs that carry-out the same functional tasks for instance operations & production, marketing, human resources, R&D and so on (Ferrell and Hirt, 2000:194). The term '*human resources management*' encompasses all the functions that are aimed at assessing the labour requirements of the organization, as well as hiring, educating and developing, remunerating people to satisfy the labour requirements of the organization. '*Marketing*' consists of various activities combined together after being devised to facilitate the exchange of goods/services and operations through developing, delivering, pricing, advertising and selling value adding products, services and ideas customers needs or wants (Ferrell and Hirt, 2000:194). Generally the words finance and accounting are interrelated. The term '*accounting*' refers to the recording, quantification, analysis and the extraction of meaning from financial data (Ferrell and Hirt, 2000:358). '*Operations management*' refers to the creation and management of the activities in the organization that are concerned with the transformation of resources into goods or services (Ferrell and Hirt, 2000:218). The term '*research & development*' refers to the activity of continuously developing, learning, diffusion and the understanding of various new theoretical or experiment ideas and concepts that are carried-out by organizations or the State with the aim of achieving innovation through the creation of new products/services and or alternatively by adding more value to already existing products or services in the form of modifying their features, utility, robustness, design, quality and so on. (Rudolph. Patrick. T. Muteswa, 2019). Lastly, this chapter contains a new popular job title in the field of information & technology (*IT*) namely; chief innovation officer (CINO) who has the responsibility of handling all the day-to-day duties that are linked to innovation in the organization and its systems as a whole. The following section will cover all aspects related to an organizational structure.

² Ferrell, O. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: McGraw-Hill Incorporation, p167-358.

1.3 The organizational structure and functional departments in an organization

An *organizational structure* is a chart or diagram that clearly depicts: the hierarchical levels of leadership or management in the organization; chain of command between the levels of management; all the functional departments in the organization; all the job titles found in each functional department; the communication channels in the organization and so on. A typical organizational structure of a large food manufacturer that operates nationally is shown below in Figure 1.1.

Figure 1.1: An organizational structure of a national food manufacturer

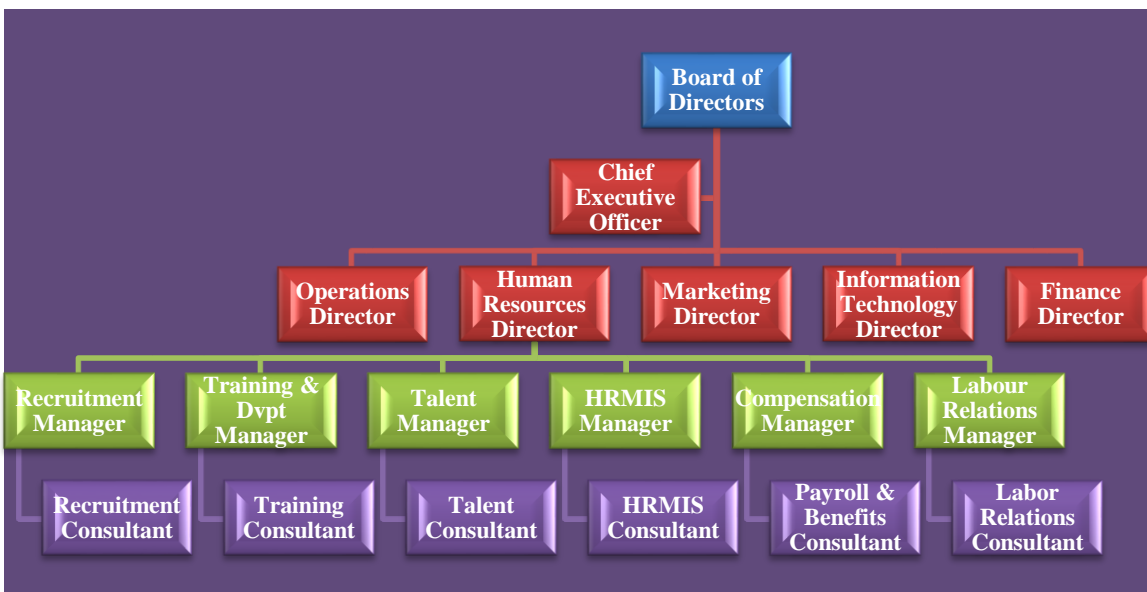


Figure 1.1 depicts an organizational structure/chart of a large national food manufacturer and its various departments comprising of marketing, operations, human resources management, finance and information technology. The board of directors and the CEO devise the organization’s mission and objectives which they communicate to all the departments. On the other hand the CEO and the functional managers formulate strategic goals and plans that must be achieved by coordinating all the departments’ activities. The functional manager and line managers formulate their strategic and operating plans which they use to achieve the organization’s objectives and goals. The following section will cover the advantages of functional departments in an organization.

1.4 Advantages of functional departments in an organization

It is important to point-out the fact that innovation takes place across the entire organization (*that is in each and every department*) therefore there is no single department in an organization that exclusively enjoys innovation progress. The various advantages of functional departments in an organization are depicted in Figure 1.2 below.

Figure 1.2 Four advantages of functional departments in an organization



Figure 1.2 helped to highlight the various advantages of functional departments in an organization and these are further discussed as follows:

1.4.1 Easy to manage

One of the key advantages of functional departments in an organization is that they enable the organization to easily manage the various tasks that are carried-out by the different specialists employed in these job groupings. Functional departments are characterized of people with high knowledge, experience and interest in the particular field of specialization. Generally board of directors often rely on the reports and information that is produced and submitted to them by the

functional departments in making critical strategic decisions and setting the corporate governance practices to adopt.

1.4.2 They help to boost efficiency

When jobs are performed based on specialization, tasks are generally completed at a much faster rate, with limited errors and this therefore enables the department in question to become much more efficient. A skilled individual can use fewer inputs to produce more output of a product/service without compromising the quality and utility of the end product or service. Therefore, efficiency is one of the main advantages of the division of work into groups based on specialization. When all the functional departments in an organization are totally efficient in the way they conduct their activities this often helps the board to easily attain its operational efficiency goals.

1.4.3 They help to create an innovation-driven culture

Functional departments are comprised of people who have similar educational backgrounds, experience and knowledge in a specific business related field. When people who work together in a department share similar interests it often becomes much easier for them to share ideas or motivate each other to become creative in order to improve the organization's processes, systems, policies, products or services and so on. Therefore, by doing so a culture of innovation is inevitably developed in the functional department. In general an innovation culture in an organization must first start from the board of directors and then it proceeds all the way down to the CEO, COO, functional department managers, supervisors and the employees. In a nutshell organizations that appoint board of directors or leaders who do not believe in the importance of an innovation culture are more likely to have functional departments that have stagnant innovation processes.

1.4.4 The functional department strategy supports the overall corporate strategy

In general all the functional departments in an organization implement their key strategy which must be aligned to the overall corporate strategy of the organization. Notably, the fact that the strategy of a functional department is implemented on a day-to-day basis tends to ultimately enable the organization to achieve its set strategic and innovation goals. When functional

departments achieve their set operational and strategic goals which are aligned to the business/corporate strategy of the organization they inevitably strengthen the overall performance of the board of directors in the organization. This is due to the fact that an organization is a system that is made up of interrelated parts thus the board of directors and the CEO form the central point of the system. Even in the top management structures (*such as board of directors/board of management*) in some of the organizations there is always a sit that is reserved for a certain specialist area(s) that are found in the functional departments of the organization for example a human resources management, R&D, operations management, finance & accounting, ethics & compliance and information technology specialists. A good example of a leading global organization with different specialists that are part of its board is automobile manufacturing firm *the BMW Group* which has its headquarters in Munich, Germany which greatly values its human resources function. “*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 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”³ (BMW Group, 2019, <https://www.bmwgroup.com/en/company.html>). The BMW Group currently has a human resources management expert and many other experts who are currently part of its board of management (BMW Group, 2018). In general when human resources management experts in an organization are part of an organization's board of management they help to align the organization's human resources management strategy to its corporate strategy in order to help the organization achieve its set goals and objectives. The various reasons why specialists from the different career fields that are found in the organization's functional departments must be appointed as board of directors will be covered in the following section.

³ BMW Group (2019) *Five BMW Milestones*. Available from: <https://www.bmwgroup.com/en/company.html>

1.5 Why boards must have a specialist from each functional department in the organization

Over the past number of years or decades some of the organizations have specifically chosen the recruitment policy of nominating board of directors with vast work experience and high educational backgrounds whilst placing less emphasis on the abilities of the job candidates to be creative, innovative and strategic on-the-job. Today value-driven organizations tend to place more emphasis on the job candidate’s innovativeness, specialty area and educational background. Organizations that are considered to be highly successful in global business in this present day have boardrooms that are filled with specialists with qualifications and expertise in various fields of specialization that are similar to the organization’s functional departments. A board of director with expert knowledge in a certain career field often helps to increase the knowledge capital of the organization and the board. An individual with the adequate theoretical knowledge and capabilities to propel the organization to its maximum greatness in the marketplace as a result of innovative thinking is the ultimate job candidate every board nominations’ committee desires. The hiring of specialists in the boardroom often helps organizations to achieve sustainable greatness via numerous accomplishments. Some of the notable advantages of hiring specialists in the boardroom are depicted in Figure 1.3 below.

Figure 1.3 Four advantages of hiring specialists in the boardroom



Figure 1.3 helped to highlight the four advantages of hiring specialists in the boardroom and these are further discussed as follows:

1.5.1 Well calculated decisions are consistently made

In general specialists in various career fields are people with vast knowledge and unique philosophical thinking capabilities that are visible in each decision they make since they often go the 'extra mile' in ensuring that they assess risks, identify opportunities and threats associated with the decision before finalizing their decision. This therefore results in the organization enjoying well calculated decision making processes that help it to: (1) reduce the risk of error, (2) reduce customer dissatisfaction, (3) reduce the losses in sales revenue or market share, (4) reduce management incompetency and so on. Boards that are comprised of specialists often make accurate future projections or forecasts on activities such as strategic human resources/marketing planning and so on.

1.5.2 Increased emphasis is placed on fulfilling customer needs or wants

Every business related specialist who is well qualified or who has received his/her education in this modern day business world must be knowledgeable of the fact that the number one goal in each and every task he/she must perform at any organization is to serve and satisfy the needs and wants of customers including other stakeholders of the organization. In addition nowadays effective training & development programs in organizations helps to ensure that all employed specialists are well educated about the benefits of adopting a marketing and customer-orientation approach at the workplace. Therefore, when all the specialists employed by an organization in the boardroom adopt a marketing and customer-orientation approach this therefore makes the organization to easily become a market leader in its particular industry sector as a result of being customer driven in all its functional departments, processes, systems, products or services, policies and so on.

1.5.3 The boardroom is comprised of good-to-great business leaders

People who possess the required educational background knowledge in a certain career field are more likely to make well calculated decisions that help the organization to keep moving forward

with its innovation projects, performance and growth objectives. Therefore, when organizations continue to progress as a result of the good decisions and actions that are regularly made by its specialist board of directors' naturally 'good-to-great' business leaders are born inside the organization. Great business leaders adopt effective leadership styles that help to empower and create a conducive working environment for those they lead while simultaneously increasing shareholder value or interest in the boardroom. A boardroom that is made-up of various specialists from different career-fields is more likely to enjoy maximum support for all its innovation projects that are introduced by its different functional departments. Thus by doing so good-to-great business leaders are born since one of the qualities of being a great leader is to have the willingness to support all change and innovation initiatives in the organization in order to improve business performance and shareholder value.

1.5.4 It helps to boost the corporate brand of the organization

Board appointments are part of the reputation building process of any organization and they also help to boost investor or market confidence in the organization if the recruitment process of directors is ethically and professionally managed consistently. The appointment of specialists in an organization's board helps to show the following: (1) the organization highly values its customers' needs/wants; (2) the organization is highly committed to creating sustainable competitive advantages and (3) improving operational efficiency. Organizations that are efficient often attain high productivity levels and enjoy high customer satisfaction levels therefore this automatically makes their corporate brands much more powerful in the marketplace. The role played by the different functional departments in an organization in boosting innovation will be covered in detail in the next section.

1.6 Role played by the different functional departments to contribute to the overall success and the innovation agenda of an organization

An organization is comprised of six main functional departments and it is important to point-out that in some organizations there are less than or more than six functional departments depending on the type and size of the organization. The various functional departments in an organization are depicted in Figure 1.4 below.

Figure 1.4 Six functional departments in an organization



Source: Modified: (McFarthing, 2017; Hengsberger, 2019; Kidd, 2019; Koutkis, 2019; MacDonald, K. cited in Deloitte Canada Centre for Financial Reporting, 2018; Davis, Aquilano and Chase, 2003:4; Rosales, 2019).

The six functional departments that were highlighted by Figure 1.4 include: human resources, marketing, research & development (*R&D*), finance & accounting, operations & production departments. These are further discussed in detail and how they help to improve innovation in an organization.

1.6.1 Marketing function

“Marketing should play the lead role in defining priorities based on strategy. Priorities include targets for idea generation and defining the boundaries. This does not mean that Marketing should dictate ideas; rather, they should lead the process, involving other parts of the company and diverse external sources as appropriate. Innovation is as much about insights as ideas. The insights come from knowledge of consumers, users and customers (terminology differs by

industry and company.....), and provide opportunities to meet recognized needs, as well as to identify potentially unrealized ones. Marketing should lead the search together with colleagues in Market Research. Innovation is all about establishing desirability, feasibility and viability. Do customers want it? Can we make it? Can we make money from it? Desirability is led by marketing and market research. A lot of skill and intuition is needed to have a concept description or a Minimum Viable Product (or Prototype) that gives the closest experience to the final target as possible”⁴ (McFarthing, 2017, <https://www.innovationexcellence.com/blog/2017/06/27/marketing-and-innovation-are-inseparable/>). ⁵According to Hengsberger (2019) what does marketing have to do with innovation? Much, much more than most people can see or show in their organisation! On the one hand, innovation can only be successful with marketing; on the other hand, marketing needs innovation for product success. *Innovation marketing* as a discipline encompasses marketing activities in the innovation process. This includes, for example, research into customer needs, concept and prototype tests with customers and the marketing of new products. These are all key tasks in innovation management and *innovation marketing* plays a very important role in securing and increasing the success of innovation. Marketing has a very comprehensive role. These include the famous 4P, market research and strategic task.

- Market research comprises the identification of customer needs, on the one hand current and future market needs, and on the other hand the exploration of possible market potentials.
- Marketing also plays a strategic role. Based on the corporate strategy, marketing plans are drawn up. In many cases, marketing also plays a leading role in the development of strategies, as they are able to identify strategically important markets on the basis of market information, for example.
- 4P is the marketing mix for marketing products. Four levers are available for this purpose: product design, pricing policy, communication and the type of distribution and sales.

⁴ McFarthing, K. (2017) *Marketing and Innovation are Inseparable*. Available from:

<https://www.innovationexcellence.com/blog/2017/06/27/marketing-and-innovation-are-inseparable/>

⁵ Hengsberger, A. (2019) *What is Innovation?* Available from: <https://www.lead-innovation.com/english-blog/innovation-marketing>

As the listing of marketing tasks shows, there are many overlaps between marketing and innovation management. For example, analysing trends, researching customer needs and defining product policy in the marketing mix with product development and product design are also tasks that can be found in the function of innovation management (Hengsberger, 2019, <https://www.lead-innovation.com/english-blog/innovation-marketing>). “*Why Innovation Marketing is used?* The main purpose of innovation marketing is to open up new markets and ultimately lead to an increase in the business’ sales. Innovation marketing also aims at newly positioning the business’ products as well as addressing the customers’ needs. As the dynamics of business keep changing on a daily basis, so are the marketing strategies. However, the old conventional marketing strategies are no longer effective due to the advancement of the business world more so propelled by advancement in technology. One of the main features that distinguishes innovation marketing is the fact that it signifies the company’s or business departure from the old marketing strategies. Thus, innovation marketing should be able to highlight the progress in business by using new marketing methods that have not been used before”⁶ (Luenendonk, 2016, <https://www.cleverism.com/lexicon/innovation-marketing-definition/>). Therefore, the marketing function will always play a pivotal role in boosting the innovation levels of the organization in a sustainable manner. The research & development function’s role in boosting the innovation levels of an organization will be covered in the following section.

1.6.2 Research & development (R&D)

The current high competitive pressure in the global marketplace due to globalization has also resulted in countries across the world becoming borderless. Organizations that aim to consistently boost their performance levels while simultaneously remaining competitive at the marketplace are now investing more resources (*money and intellectual capital*) in the research & development (R&D) functional department activities. *Importance of the R&D function nowadays*. One of the main reasons why R&D is a critical function in an organization is due to the fact that it is responsible for continuously developing and diffusing various new theoretical or experiment ideas and concepts with the aim of achieving innovation through the creation of new

⁶ Luenendonk, M. (2016) *Innovation Marketing?* Available from: <https://www.cleverism.com/lexicon/innovation-marketing-definition/>

products/services and or alternatively by adding more value to already existing products or services in the form of modifying their features, utility, robustness, design, quality and so on. Adequately investing both financial and human resources into the R&D function is the gateway to achieving increased innovation rates in the form of advanced technology capacities, products or services, design, systems and processes. The R&D function operates under the guidance of its R&D strategy which must be directly aligned to the corporate strategy. In addition the R&D strategy also helps to clearly highlight how the activities of the R&D department will help it to achieve both its short and long-term objectives in a manner that helps the organization to achieve its vision and mission statement including its innovation agenda. Generally ideas of developing new products or services and or modifications of currently existing products are often created by the R&D function therefore most of the patents in an organization are a result of the high efficiency and effectiveness rate of the function. An organization that consistently registers a significant number of patents at the Government Patents Registry Office automatically becomes innovation-focused and this ultimately propels its competitive advantage in the marketplace. A highly functional R&D department enables an organization to achieve a sustainable competitive advantage as a result of its strong innovation culture. Today the global labour market is experiencing huge shortages of highly qualified scarce skills as a result of the current ‘war for talent’ in the fields of human resources management, finance, education, marketing, supply chain management, information & technology, engineering, mathematics and science related career fields. A highly effective R&D function consistently develops new life changing and value adding innovative ideas by developing new products or services, processes and systems that help to improve business performance and this ultimately results in the organization gaining a positive reputation in the marketplace. In general highly talented job seekers or knowledge workers (*people with highly scarce skills*) are often attracted to powerful corporate brands as they are more likely to offer them better career development opportunities, high competitive remuneration packages and a highly conducive modern working environment. Therefore, one of the notable contributions of R&D is its positive impact on the innovation agenda of the organization and this has also significantly helped many organizations to develop a highly powerful attractive employer brand status as ‘employers of choice’ in the global labour market. The role played by the information technology function in boosting innovation levels in an organization will be discussed in the following section.

1.6.3 Information & technology (IT)

In the information and technology department that is where new job titles such as the chief innovation officer (CINO) who have the responsibility of handling all the day-to-day duties that are linked to innovation in the organization and its systems as a whole are employed. Chief innovation officers may also be found in the research & development department as well and generally nowadays in the modern day high-tech giant corporations the chief innovation officers have permanent seats in the boardroom since the core business of these high-tech giant corporations is driven and centered around technological innovations. *“Information technology helps your business to innovate and thrive.* Both are key to ensuring sustained success in the digital age – you can’t have one without the other. In an increasingly competitive and complex business environment, it’s a matter of either you innovate and thrive – or struggle to survive. And this relies on information technology. Here’s what I mean. *Innovation and business.* In business terms, innovation means doing things differently, more efficiently, or just plain better. It’s all about leveraging available technology to make a positive difference to productivity, quality or value (internal and external). Over the past two decades, the driver of innovation has been information technology (IT), and this continues to be the case. It’s no surprise that in 2018, global IT spend is forecast to increase by 4.5% to nearly US\$3.7 trillion (R44.6 trillion). IT is to business today what steam was to the Industrial Revolution – it’s powering the next major era in the history of work. IT has already revolutionised the daily lives of individuals and organisations. Social media, digital communications, online shopping and cloud computing are just a few examples of the change that we’ve seen. And we can expect even greater transformation with the rise of the Internet of Things, big data, artificial intelligence and blockchain. Today, whether you’re a farmer or a pharmaceutical company, it’s impossible to achieve optimal marketing, sales, customer support, business planning, management, monitoring and growth without flexible IT solutions that allow for innovation”⁷ (Koutakis, 2019, <https://www.is.co.za/blog/articles/the-importance-of-information-technology-for-innovation-in-business-today-mofu/>). Furthermore, according to Koutakis (2019) *information technology powers business growth.* Information technology has reshaped the business landscape. First and foremost, it’s equipped enterprises

⁷ Koutakis, C. (2019) *Innovation and Information Technology re Terms that Can Be Used Interchangeably.*

Available from: <https://www.is.co.za/blog/articles/the-importance-of-information-technology-for-innovation-in-business-today-mofu/>

with the tools they need to solve complex problems. Smarter and faster hardware and software, bolstered data storage and streamlined communications have made it easier to collate and analyse data and expand operations based on quicker, better-informed decisions. Errors – and subsequent risks – have been greatly reduced. IT has also boosted marketing (in terms of reach and efficacy) and customer support (by improving relationship management systems and allowing multiple channels and types of contact). While the methods of doing business may be changing, knowing what makes customers tick remains the secret to success – and IT has now made it possible to gain a more in-depth understanding than ever before. *Finding the right IT solutions*. Information technology is here to stay. There's no going back to the pre-digital, pre-Internet age. Embracing IT is necessary for innovation and success – and that means across the enterprise. The days of siloed IT departments are long gone. The information technology team now plays an integral role in business strategy and development with the potential to improve processes throughout the organization (Koutakis, 2019, <https://www.is.co.za/blog/articles/the-importance-of-information-technology-for-innovation-in-business-today-mofu/>). Therefore, the IT function is a key contributor in the organization's innovation agenda. The role played by the finance & accounting function in boosting innovation in the organization will be discussed in the following section.

1.6.4 Finance & accounting

In an organization when every new idea is generated the department that ultimately decides on the funding of the implementation of that new idea is the finance and accounting function thus this function plays a key role of ensuring that all new innovative ideas are properly supported financially. “When we think about the innovative leaders within an organization, the chief financial officer (*CFO*) is rarely the first to come to mind. As the steward of the organization's resources, the finance department can often be seen as stifling innovation by expecting innovation teams to do things like control spending, hit revenue targets, etc. But as a key leader in the organization, the CFO is critical to helping establish the ‘tone at the top’ around innovation culture. In their role, the CFO can not only support but also actively encourage the innovation process as a catalyst for growth. The desire to be innovative seems to be everywhere. It is now included in many mission statements and used to describe anything from a suggestion

box to continuous improvement to transformative breakthroughs and new product launches”⁸ (MacDonald, K. cited in Deloitte Canada Centre for Financial Reporting, 2018, www.iasplus.com/). The role played by the operations and production functional department will be covered in the following section.

1.6.5 Operations & production

When operations management is defined based on its contribution to the innovation agenda of the organization the explanation encompasses all the activities involved in the department. The meaning of the term ‘*operations management*’ involves the administration of the inputs that are needed to make and distribute the organization’s products or services to the end user or consumer⁹ (Davis, Aquilano and Chase, 2003:4). A marketplace often plays a critical role in determining the corporate strategy of the organization (*in terms of how it will utilize its resources and organizational departments namely; IT, R&D, Human Resources, Operations Management and Marketing*) while on the other hand the operations strategy helps to highlight how the operations department will utilize its production capabilities in order to attain its corporate strategy. There are generally three broad areas of management decisions inside an operations department and these are: (1) Strategic decisions (*for example decisions about the production process to be used to make the new product and or where to open a new plant*), (2) Tactical decisions (*for example, determining the number of human resources needed to properly produce the goods or services and determining during which time periods or seasons of the year*), (3) Operational planning and control decisions (*for example decisions about job allocation and deciding high priority jobs in order to fulfill production schedules*) (Davis, Aquilano and Chase, 2003:6). In a operations functional department the daily routine tasks that are carried-out tend to place more emphasis on value addition via the ‘transformation process’ or the ‘technical core’ and some of the typical examples of transformations include: (1) physical (*used in manufacturing processes*), (2) exchange (*used in service orientated processes such as retailing*)

⁸ MacDonald, K. cited in Deloitte Canada Centre for Financial Reporting (2018) *The Chief Financial Officer's Role As An Innovation Leader*. Available from: <https://www.iasplus.com/en-ca/cfos-corner/leadership/the-chief-financial-officer2019s-role-as-an-innovation-leader>

⁹ Davis, M., Aquilano, N. and Chase, R. (2003) *Fundamentals of Operations Management*. 4th Edition, New York: McGraw-Hill Incorporation, p3-288.

(Davis, Aquilano and Chase, 2003:7). Notably, when the operation's department transformation processes add value they help to boost the innovativeness of the organization thereby positively contributing to the prosperity agenda of the organization and its board. The contribution of the human resources function towards the innovation agenda of an organization will be covered in the following section.

1.6.6 Human Resources Function

Generally in organizations all people-related issues fall under the scope of; (1) the human resources department and (2) other line managers in other functional departments. Innovation is part of the objective of the human resources strategy since in an organization the human resources are the key drivers of the culture of innovation. The human resources function plays a critical role in boosting innovation in an organization. Interestingly, nowadays the human resources function is now at the forefront of achieving the corporate innovation objective in organizations under the expert guidance of the board of directors. The human resources function has the duty of ensuring that the organization recruits and selects business leaders who will apply innovative leadership in its day-to-day activities. In an organization corporate innovation can be enhanced by the human resources function in several ways. According to Rosales (2019) human resources as the facilitator of a culture of innovation. Creating, maintaining, and managing skills orientated towards innovation must be one of HR's main objectives. But *honing these skills and guaranteeing their sustainability goes through generating a culture of innovation. How can human resources contribute to building an innovative culture?* Some ideas:

- *Implementing policies on incentives for innovation.* These incentives should be financial, but can also be recognition.
- *Implementing specific training programmes on innovation* for key leaders.
- *Disseminating the importance of comprehensive innovation:* innovation in products, processes, and the business model.
- *Leading campaigns that ease employees' fear of failure.*
- *Ensuring a real budget for innovation.* New ideas need to be prototyped and tested. Without real resources for this, ideas may always remain as that: just ideas.
- *Facilitating mobility and collaboration between people from different departments.* Innovation often comes about when you bring together minds that have different knowledge, backgrounds,

and perceptions of the world¹⁰ (Rosales, 2019, <https://inusual.com/en/blog/why-should-human-resources-lead-the-innovation-agenda>). “*Human resources can lead a training agenda for innovation*. In companies, employee training programmes tend to be the responsibility of human resources departments. HR should assume that *it cannot delegate the responsibility for continuing education solely on the employee*. Therefore, it is the responsibility of the corporation to find opportunities for training and design programmes so that employees understand current changes and those that are to come *in order to build teams that are proactive when faced with changes in the business world*. In other words, it is the human resources department’s responsibility to find ways to sponsor and promote innovative leadership. For example, if a corporate strategy points towards ensuring the company stays modern, with digital solutions, human resources should take charge of scheduling a training agenda on new technologies: What is block chain and what possible applications does it have in our market? How can we apply machine learning in the digital solutions we offer our clients? Could 3D printing have a revolutionary effect on our manufacturing costs?” (Rosales, 2019, <https://inusual.com/en/blog/why-should-human-resources-lead-the-innovation-agenda>”).

Therefore, human resources departments significantly contribute to boosting innovation rates of organizations and their boards. The role played by the human resources function in improving business performance will be covered in the following section.

1.7 What is human resources management and the role played by the human resources function in improving business performance

An organization’s human resources is also known as human capital. The factors of production are critical for every organization and out of all the common factors of production (*namely; land, capital, assets, technology and so on*) human capital is the most vital factor of production. *Human resources management* can be defined as all the people related practices and policies that involve human resources planning, learning & development, recruitment, talent management, compensation, health & safety of employees, work/life balance and leadership with the main aim

¹⁰ Rosales, P. (2019) *Why Should Human Resources Lead the Innovation Agenda?* Available from: <https://inusual.com/en/blog/why-should-human-resources-lead-the-innovation-agenda>

of fulfilling the workforce needs of the organization¹¹ (Ferrell and Hirt, 2000:270; Al Wahshi, Omari and Barrett, 2013:3). Human resources management has the responsibility to ensure that they devise systems and processes that enable the organization to succeed in maintaining its main competitive advantage that is its people. The importance or value of human resources management has increased in most organizations¹² (Ulrich and Smallwood, 2003:253) and this is supported by a study carried-out in Selangor, Malaysia published in the International Journal of Business and Management (2009) titled “*The Effect of Human Resources Management Practices on Business Performance Among Private Companies in Malaysia*” by Abdullah, Ahsan and Shah Alam. According to Abdullah, Ahsan and Shah Alam (2009:65) the study was aimed at identifying common human resources management practices effect on Malaysian private companies’ performance. Data for the study was gathered by primary data collection method through personally administered questionnaires. Due to cost constraints a convenient sample of 159 private companies were chosen for this research. A trained data collector approached potential respondents in randomly selected private business organizations in Selangor in Malaysia. Of the 159 respondents who had agreed to complete the survey. However, 6 were discarded due to uncompleted responses; the final sample was 153 for an effective response rate of 91.45%. Abdullah, Ahsan and Shah Alam (2009:65) state that we found support for the four human resources management practices to be correlated with business performance based on responses from 153 managers from Selangor based private firms in Malaysia. Regression results showed that training and development, teamwork, compensation/incentives, human resources planning, performance appraisal and employee security have a positive and significant influence on business performance with the exception for compensation/incentives and employees’ security (Abdullah, Ahsan and Shah Alam, 2009:65). Therefore, the business performance of an organization relies on its human resources functions and the role played by the human resources function in organizations today has become vital for their long-term survival and profitability. It is important for all the employees, line managers and other stakeholders of the organization to

¹¹ Ferrell, O. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: McGraw-Hill Incorporation, p42 – 341.

¹² Ulrich, D. and Smallwood, N. (2003) *What’s Next for the People Function?* In Efron, M (Ed) *Human Resources in the 21st Century*. London: Wiley, Copyright@2003, p251-257.

fully understand the meaning of the human resources management and how it relates to the organization's activities. The human resources function has become more strategic in most organizations today in terms of the attainment of goals and objectives hence this has led to the development of strategic human resources management which will be covered in the following section.

1.8 Strategic human resources management

The highly dynamic business environment has made change management the norm in every organization nowadays. Today the globalization of the world economy has been accelerated by the World Wide Web and this has also exacerbated (1) the 'war for talent' in the global labour market, (2) the 'brain drain' of skilled employees in many countries around the world. Therefore, the high talent retention costs currently being experienced by most organizations around the world today has led to the human resources management function becoming strategic human resources management. It is the role of the human resources department to ensure that the currently available talent is fully utilized to attain the goals and objectives of the organization by devising a properly crafted and simple human resources strategy. The main purpose of human resources strategy is to consistently enhance the performance of the organization. This definition helps to indicate the central role played by people in an organization's pursuit of a competitive advantage. *Strategic human resources management* is therefore the alignment of the human resources management activities (*namely; recruitment, selection, training, compensation, talent management, employee wellness, HRIS & so on*) with the overall strategic plan of the organization in order to make a positive impact on the organization's performance results. In general any human resources department in an organization that practices strategic human resources management ensures that it coordinates and effectively communicates its human resources activities with other functional departments in the organization. *Strategic human resources management* entails designing and executing various uniform policies and standards within the organization that help to motivate, enforce and direct the organization's human resources to go the extra mile in working towards attaining the organization's goals (Baird & Meshoulam, 1988 and Jackson & Schuler, 1995 cited in Huselid, Jackson and Schuler, 1997:172). This definition is supported by a study published in the Academy of Management Journal (1997) titled *'Technical & Strategic Human Resources Management Effectiveness as*

Determinants of Firm Performance by Huselid, Jackson and Schuler. According to Huselid, Jackson and Schuler (1997:171) the study evaluated the impact on corporate financial performance. Study respondents consisted of senior executives in human resources management (92%) and line (8%) positions. There were no significant differences in the effectiveness or capabilities ratings provided by the line and human resources managers, the study analysis combined the two sub-groups. These survey responses were matched with publicly available financial data for the 293 publicly held U.S. firms that participated in the study (Huselid, Jackson and Schuler, 1997:174). According to Huselid, Jackson and Schuler (1997:171) the study discovered that there were relationships between human resources management effectiveness and productivity, cash flow and market value. Study findings were consistent across market and accounting measures of performance and with corrections for biases (Huselid, Jackson and Schuler, 1997:171). Therefore, strategic human resources management influences the financial viability of a firm and integration of all its departments to achieve the expected business performance goals. Human resources management functions are critical and contribute enormously towards achieving the organization's goals and objectives. In the following section the various human resources department activities will be covered.

1.9 Human resources department activities

The human resources department functions include: recruitment and selection, training and development, talent management, change management, performance management, compensation, labour relations and human resources information systems. Business professionals in the organization with academic qualifications (*namely; certificates, diplomas, university degrees and professional qualifications*) that specialize in business management, strategic management, labour law, human resources management, information technology (IT), organizational behavior and industrial psychology work in this department or function and become experts in this career-field making them suitable for appointment as board of directors in both nonprofit and profit making organizations. The numerous functions of the human resources department are depicted in Figure 1.5 below.

Figure 1.5 Functions of the human resources department



Source: Modified: (Hunter, 2002:83; Ferrell & Hirt, 2000:271; State of Queensland, Australia, 2020, <https://www.business.qld.gov.au>).

As previously depicted by Figure 1.5 the various functions of the human resources department are further discussed as follows:

1.9.1 Recruitment and selection – this human resources function ensures that job applicants continue to apply for jobs in the organization. The recruitment and selection function ensures that the recruitment of employees is aligned to the recruitment policies of the organization for example, hiring of relatives, the preferred method of job advertising, discrimination laws and so on. Recruitment lays-out the direction the organization should take in order to be successful and achieve its human resources strategy or vision¹³ (Hunter, 2002:83; Ferrell & Hirt, 2000:271). Recruitment and selection can influence a positive psychological contract through offering employees competitive remuneration rates and conducive working environments, induction

¹³ Ferrell, O. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: McGraw-Hill Incorporation, p271-274.

training, effective leadership styles and in return the employee should offer high productivity, loyalty and commitment.

1.9.2 Training and development – it is a human resources function that is responsible for all individual and organizational training needs and development. The performance of employees at the workplace is determined by the amount and quality of training and development they receive from the organization. It is essential for an organization to devise effective training programs and the training of employees must be carried-out in such a way that helps to fulfill the employees' training needs. In addition the human resources manager must also make a decision to choose a training method to use between 'on-the-job training method' or 'off-the-job training method'. Therefore, employees exposed to such high quality training often tend to perform better and they consistently remain up-to-date with the ever-changing business trends.

1.9.3 Talent management – this human resources function is responsible for the proper management of the organization's talent and ensuring that it keeps working for the organization for a very long time period. In addition talent management is also responsible for creating employer branding strategies that help to build the brand name of the organization to become an employer of choice in the labour market. Talent management has become a critical aspect in most of the organizations today because of the scarce skills shortages in the global labour market. Furthermore, the elements of talent management encompass the following; recruitment and selection, employer branding, employee retention strategies and provision of a conducive working environment. Organizations that strive to be employers of choice in the labour market offer attractive high intrinsic and extrinsic rewards, attractive work/life balance schedules such as flexible working hours, study tuition reimbursement and so on¹⁴ (Kinnear and Sutherland, 2000:106). It is the role of the talent management experts to ensure that the organization's assets (*its people*) are happy and willing to increase their tenure in the organization.

1.9.4 Change management – this human resources function is responsible for managing all the change interventions in the organization. *Change management* is a structured approach that redirects or redefines the use of resources, business processes, budget allocations, technologies,

¹⁴ Kinnear, L. and Sutherland, M. (2000) The Determinants of Organizational Commitment Amongst Knowledge Workers, *South African Journal of Business Management Volume (31) (3) March*, p106-108.

the corporate culture of the organization with the aim of moving the organization from its current state to the desired future state of enhancing its efficiency and effectiveness. The change process in every organization follows certain steps until it has been successfully adopted by everyone. Change interventions only succeed in most organizations if there is total commitment from the bottom level employees and top level management. Therefore, human resources professionals are responsible for the management of all working relationships between employees in organizations especially after change interventions have taken place so that people quickly start to perform as expected at the workplace.

1.9.5 Performance management – this human resources management function is responsible for identifying employees' strengths and areas of weaknesses. One of the challenging task most of the human resources managers are faced with on a day-to-day basis is the failure to apply corporate strategy by the employees in the organization. The human resources department activity that helps to guide the focus of employees towards attaining the organizational goals is performance management since it seeks to measure the job performance of employees through performance appraisal systems, the setting of goals and objectives for the employee to achieve within a specific period of time, recommend training needs and also it helps to identify key performance areas of a particular job. Managers have to ensure that they properly assess their employees so that they can properly identify their training needs and also be able to align their employees' work performance to compensation.

1.9.6 Compensation – The shifting of the global economy from a manufacturing based to a service or information-based economy means that highly qualified people are now needed in organizations. Therefore, organizations nowadays must ensure that they pay employees competitive remuneration rates so that they may successfully retain their talented employees. The changing nature of jobs in organizations nowadays is being caused by: (1) the high advancements in technology, (2) the shifting of the global economy from being a manufacturing-based economy to both a manufacturing and service-based economy and this has enormously created the high demand for jobs that require high levels of knowledge. Therefore, the high demand for jobs that require high levels of knowledge ultimately creates the need for organizations to pay employees using skills-based remuneration instead of job-based remuneration.

1.9.7 Labour relations – this human resources function is responsible for dealing with legal issues pertaining to the welfare of employees in the organization. “*Industrial relations* is the management of work-related obligations and entitlements between employers and their employees”¹⁵ (State of Queensland, Australia, 2020, <https://www.business.qld.gov.au>). According to the Australian Association of Social Workers (AASW) (2015) the term ‘*industrial relations*’ generally refers to employment issues and the employment relationship between an organisation and its staff”¹⁶ (Australian Association of Social Workers, 2015, www.aasw.asn.au/). Furthermore, *industrial relations* refers to the relationship between employers and employees in an organization with interactions taking place in the following forms: collective bargaining, workplace forums, staff meetings, disciplinary hearings, grievance and dispute settlements and so on. Most organizations today face the challenge of keeping consistent harmonious relationships with their employees and labor trade unions over workplace disputes.¹⁷ “*Trade unions* are independent, membership-based organisations of workers that represent and negotiate on behalf of working people. They give advice when their members have problems at work, represent members in discussions with employers, and help improve wages and working conditions by negotiating with employers. Unions also make sure that their members’ legal rights are enforced, provide and broker education and learning opportunities for members, promote equal opportunities at work, fight against discrimination and help to ensure a healthy and safe working environment” (Ethical Trading Initiative, 2010:1, www.ethicaltrade.org/). According to the Ethical Trading Initiative (2010) *the benefits of working with a recognised trade union. Build trust among the workforce*. Unions provide a mechanism for dialogue between workers and employers, which helps to build trust and commitment among the workforce and ensures that problems can be identified and resolved

¹⁵ State of Queensland, Australia (2020) *Industrial Relations*. Available from: <https://www.business.qld.gov.au/running-business/employing/employee-rights/ir> [Accessed January 31, 2020] © Commonwealth of Australia 2020.

¹⁶ Australian Association of Social Workers (AASW) (2015) *Industrial and Workplace Issues Information Sheet*. Available from: <https://www.aasw.asn.au/document/item/7265>

¹⁷ Ethical Trading Initiative (2010) *Working with Trade Unions to Improve Working Conditions: The Benefits for Retailers and Suppliers*. Available from: https://www.ethicaltrade.org/sites/default/files/shared_resources/benefits_of_working_with_trade_unions.pdf

quickly and fairly, *Audit non-compliance with labour codes*. Unions are a good source of information on workplace practice, and are well placed to work with employers to identify and address poor working practices and non-compliance with labour standards, *Promote equality*. Trade unions actively fight discrimination and help to promote equal opportunities at work (Ethical Trading Initiative, 2010:2, www.ethicaltrade.org/). Therefore, an organization that wants to establish good harmonious relationships between itself, employees and trade unions must adopt group dynamics, encourage high worker involvement in decision-making and properly maintain a two-way channel of communication. The human resources function of labour relations is responsible for liaising with labour unions that represent all the employees in the organization in the collective bargaining process. The labour relations function is also responsible for ensuring that all labour laws are adhered to in the organization to help protect the organization from consistently having labour disputes with its employees or their trade union representatives. For instance, labour laws cover occupational health and safety, recruitment laws, employment contracts, job dismissals, lay-offs and so on. The designing of employee complaints, procedures at the workplace and arbitration of employee complaints fall under the function of labour relations.

1.9.8 Human resources information systems (HRIS) – this function is responsible for ensuring easy adoption of all human resources information technology by the organization’s human resources professionals and department. The rapid technology evolution which is increasing at a faster pace across the world has put enormous pressure on organizations to adopt HRIS. *Human resources information system (HRIS)* is comprised of a complex system that can only be found in a computer and generally the human resources function utilizes the HRIS to administer the organization of the human resources processes and protocols (Tannenbaum, 1990 cited in Karikari, Boateng and Ocansy, 2015:425). The HRIS function is also responsible for ensuring that employees quickly learn how to use the human resources technology in order to improve their human resources day-to-day activities. Human resources information technology experts in an organization are responsible for the following tasks: managing the HRIS software and associated hardware that helps the organization to automate all its human resources activities, ensuring that employee data is accurate all the time, ensuring that employees spend less amount of time in processing clerical tasks by adopting new technologies that can easily perform such clerical tasks for them. For example payroll software or electronic data processing and tracking

software systems, also HRIS(s) manage the human resources integrated profile database including internet security systems and they also help to protect the organization from hackers and competitor attacks. The HRIS is also responsible for designing the human resources management website since it helps to make the organization achieve its employer of choice goals and improve its employer brand ratings in the labour market. Therefore, the human resources department is critical for the organization's survival. Therefore, the human resources department is critical for the organization's survival. In the following section the importance of the human resources management function will be covered.

1.10 Importance of Human Resources Management

In this 21st century the success of every organization is in the hands of its people since they are its strategic assets. One of the most strategic role of management in today's modern organizations' is to manage the human resources. In addition management often aims to *promote and create dignity for all the people* at the workplace through the provision of decent work, performance targets, effective job design, compensation, career-growth and training opportunities. The various reasons why the human resources management function of an organization is important are depicted in Figure 1.6 below.

Figure 1.6 Nine reasons why the human resources department is important



Source: Modified: (Ulrich and Smallhood, 2003:253; Ferrell and Hirt, 2000:272; Hunter, 2002:110).

As depicted by Figure 1.6 the various reasons why the human resources management function of an organization is important are discussed as follows:

1.10.1 Market value is influenced by the human resources activities

Human resources professionals contributions in the department greatly influences the organization's *market value* that is, they help to ensure recruitment, selection, training and development and talent management strategies are properly implemented therefore the end result is good quality products or services, increased sales and high employee morale¹⁸ (Ulrich and Smallhood, 2003:253). Strategic human resources management strives to align all human resources activities to the organization's mission and objectives. Therefore, human resources management is important to an organization.

¹⁸ Ulrich, D. and Smallwood, N. (2003) *What's Next for the People Function?* In Efron, M (Ed) *Human Resources in the 21st Century*. London: Wiley, Copyright@2003, p251-257.

1.10.2 It helps to provide a healthy and safe working environment

Human resources management plays a vital role in the organization of providing a *healthy and safe working environment* that helps to protect employees' health through the formulation of occupational health and safety policies or by ensuring that the organization complies with the occupational and health laws of the country where the organization's facilities are located. The human resources management function is responsible for ensuring the following: (1) that it removes any form of hazards at the workplace, employees are well educated about safety precautions when using hazardous materials or equipment, (2) safety monitoring systems are regularly carried-out to ensure if employees are complying, (3) safety representatives are appointed to monitor the health and safety standards of an organization. The human resources function is also responsible for ensuring that it regularly carries-out selection tests (*namely: competency, intelligence, personality and so on*) and drug testing amongst its employees only if it is permitted by the labour laws of the country. Drug testing can be done due to the following reasons: (1) if the employees deal with dangerous chemicals that need them to have a focused clear mind to successfully concentrate on-the-job, (2) the organization operates in the sports industry where sports people have to be regularly tested to check for the intake of illegal drugs that help them to quickly enhance their performance in their day-to-day sports activities, (3) when the lives of the public greatly depend on the clear reasoning ability of the job incumbent on a daily basis for example pilots, air traffic controllers, bus drivers and so on¹⁹ (Ferrell and Hirt, 2000:272; Hunter, 2002:110).

1.10.3 It leads to the upliftment of a team spirit in the organization

The human resources management function is important to an organization as it leads to the promotion of *team-work* in the organization. Generally *teams* are comprised of groups of people who share a common agenda and they also help the organization to attain its set goals. While on the other hand teams also serve as a critical tool that is used by the organization to deal with certain various tasks found in all of its functional departments since they are comprised of individuals who are experts in a particular career-field. There are different forms of teams an organization can use to achieve a specific objective or as a permanent business structure. The

¹⁹ Ferrell, O.C. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: Irwin McGraw-Hill, p272.

three common types of teams that are being used in organizations today include: (1) quality circles which are formed with the main goal of solving problems, (2) self-directed groups which are also referred to as natural groups and (3) cross-functional teams for example remuneration committees in organizations.

1.10.4 It helps to facilitate employee growth and development

Human resources management is vital to an organization's success since it facilitates employees' growth and development through performance management, training and development activities. An organization can only attain its goals if its employees are consistently guided towards achieving them and one way of doing so is performance management. Performance management is concerned with the day-to-day management and monitoring of employees at the workplace to check if they are attaining the organization's goals. Another tool of performance management that enables an organization to develop its employees is performance appraisal which aims to evaluate or rate the level of job performance of the employees' whilst simultaneously identifying their areas of weaknesses at the workplace and this information can later be used to recommend training programs that can be used to develop the employees' on those areas of weaknesses. Employee growth in the organization is also fostered by career development where the human resources management designs career paths for all the organization's employees to follow in their career and creates career opportunities for them through internal hiring whenever vacancies arise in the organization.

1.10.5 It helps to promote organizational commitment by employees

Organizational commitment of employees is easy to achieve if an organization has a fully functional and effective human resources department and human resources strategy. The human resources department is important to an organization because it formulates strategies on how to increase employees' commitment to continue working for the organization. The human resources department plays a vital role in ensuring that employees maintain their organizational commitment via effective management of employee welfare.

1.10.6 It helps to facilitate organizational effectiveness

The human resources management function is important to an organization because it helps to increase *organizational effectiveness*. Therefore the human resources department philosophy is guided by certain principles that include the following:

- The human resources must ensure that the organization's goals and objectives are consistently aligned to the employees' goals,
- An organization's most vital strategic assets are its employees whom if properly nurtured can enable it to attain sustainable future growth and profitability,
- The human resources department must ensure that employees are offered decent employment and good working conditions accompanied by fair compensation to acknowledge that the organization values and respects their services,
- The human resources department must ensure that it facilitates cooperation and healthy working relationships amongst all employees so that employees treat each other with respect, dignity and be able to communicate routinely on both work and personal life issues,
- The human resources department must support and administer the employee recruitment, selection, induction, talent retention, compensation and training processes in compliance with the organizational needs and legal obligations,

1.10.7 It helps to create good employee and community relations

The human resources management function is important to an organization because it helps to establish *employee and community relations* by designing complaining procedures that can be used by both the employees and the community. In addition another responsibility of the human resources management function is to organize conferences and award ceremonies to appreciate top performance in the organization. The human resources management function is important to an organization because it helps to design community social responsibility programs in liaison with the public relations department especially on matters relating to part-time employment opportunities for the youths, learnership programs for college graduates, establishing community work programs for the organization's employees and so on.

1.10.8 It helps to create a diverse and fair workplace

Today the human resources management function is important because of the rapidly changing demographic structure of the global workforce which now requires organizations to manage diversity with utmost care to successfully appeal to the diversified global marketplace²⁰ (Laubscher, 2001:18). It is the role of the human resources management to ensure that the organization develops policies that help to avoid the discrimination of employees and job candidates based on gender, race, disability and to provide equal opportunity of employment (Laubscher, 2001:18). ²¹The human resources management department today has greatly influenced the diversity management of employees at the workplace and it has also adopted a non-discrimination policy that prohibits the unfair discrimination of job applicants based on HIV status, gender, race, religion, disability, nationality, marital status and so on (Hunter 2002:93; Laubscher, 2001:18). Generally in each and every board there are standing committees such as: the nominations, governance, remuneration, workplace safety & health and ethics committees which are all comprised of one or more human resources management experts (*who also serve on the board*) including other experts from different career specializations. Today one of the most critical task most of the nomination committees of boards are faced with in the area of ‘diversity and inclusion’ is ‘gender diversity’ which is now considered to be one of the most effective ways of boosting business performance and a valuable ‘moral choice’ an organization can adopt during its hiring processes. Various research studies have been conducted by several academics to determine the link between business performance and gender diversity.

1.10.9 It helps to establish a strong employer brand in the labour market

Human resources management helps to create a good image about the organization in the labour market as a good employer via employer branding activities such as advertising. One of the main aims of each and every human resources management department is to establish enormous recognition of human resources issues since they help to sustain productivity, organizational commitment, training and development, employee job satisfaction and so on. Employer branding

²⁰ Laubscher, C (2001) Managing Diversity. *People Dynamics*, p16-18.

²¹ Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management.*, Pietermaritzburg: Bytes Document Solutions, p93.

is one of the most effective human resources activities that helps to ensure that employees enhance their organizational commitment levels, increase their tenure, feel proud to associate and be recognized as part of the organization's identity in both their personal/work life. In general the human resources management function is critical and is also affected by various external factors. The conclusion of this chapter will be covered in the next section.

1.11 Conclusion

A competent board highly prioritizes reports and information submitted to it from its functional departments in order to analyze or discuss any input of ideas or useful information on all matters related to the organizations' processes, systems, policies and plans. All the organization's departments are interrelated since they are all guided by the corporate strategy, vision and mission statement of the organization. Each and every functional department in the organization has its own strategy that forms part of the business strategy for instance, human resources strategy, marketing strategy, operations strategy, research & development (*R&D*) strategy. One of the common characteristic of a highly competent board is that it is filled with specialists with qualifications and experience that is similar with that of the fields of specialization found in the organization's functional departments. A board of director with expert knowledge in a certain career field often helps to increase the knowledge capital of the organization and the board. It can be concluded that the six functional departments that immensely drive the innovation agenda of the organization and its board include: human resources, marketing, research & development, finance and accounting and the operations departments.

1.12 Review Questions

(1) Define the following terms: specialization, departmentalization, functional department, human resources management, marketing, accounting, operations management, research & development'? What is the meaning of the job title abbreviation CINO?

(2) Explain what is an organizational structure? Draw and label an organizational structure and functional departments in an organization of your choice? List the advantages of functional departments in an organization? Explain the reasons why boards must have a specialist from each functional department in the organization?

(3) Discuss in-depth the role played by the different functional departments to contribute to the overall success and the innovation agenda of an organization? Describe what is human resources management and give relevant examples? Explain the role played by the human resources function in improving business performance?

(4) What is the meaning of the term strategic human resources management? Identify some of the human resources department activities?

(5) Explain the importance of human resources management in an organization?

Chapter 2: Basic roles & functions in a board

After reading this chapter you should be able to:

- Define what is a board. Explain the importance of a board to an organization.
- Describe the meaning of a director. Outline the types of directors.
- List the characteristics of an effective director.
- Identify the roles and responsibilities of directors in a profit-making organization.
- Describe the roles or titles found in a board.

2.1 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. “It is for the board to judge, on a case-by-case basis, which stakeholders it treats as 'relevant' and which of their interests is appropriate to meet, taking into account the law, relevant regulations and commercial considerations. In pursuing this *key purpose*, a board of directors faces a uniquely demanding set of responsibilities and challenges. Each board member is expected to recognise these *challenges* and ensure that they personally contribute to finding the right balance between these various competing pressures. Each board should decide what it needs to do in order to achieve its *overall purpose* and identify any gaps or deficiencies in what it is already doing. The board is also encouraged to focus on those tasks that it must – or wishes to – undertake itself, and to decide which should more properly be carried out by senior management”²² (Source: *Standards for the Board*, IoD cited in Institute of Directors United Kingdom, 2019, <https://www.iod.com/>). The decision making process of boards is jointly carried-out by board members while simultaneously sharing proportionate responsibility for all the final decisions that are reached during each board meeting despite the fact that a board

²² Institute of Directors United Kingdom (IoD UK) (2019) *What is the Role of the Board*.
<https://www.iod.com/services/information-and-advice/resources-and-factsheets/details/What-is-the-role-of-the-board>

member might have not contributed their opinion or viewpoint when the board's decision was made in any particular board meeting. Thus this joint responsibility, answerability and in-depth knowledge are critical characteristics that help to signify good corporate governance and the making of effective board resolutions²³ (Australian Institute of Company Directors, 2016:4). The meaning of the term board of director will be covered in the next section.

2.2 Definition of the term 'board'

There are many definitions that have been developed by academics, business management gurus and other experts over the past decades. 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 company²⁴(Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/What-is-a-board>). In the following section the importance of the board of directors to an organization will be covered.

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).

²⁴ Institute of Directors in New Zealand (2018) *What is a Board?* Available from: <https://www.iod.org.nz/FirstBoards/What-is-a-board>

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

²⁵When an organization expands in terms of its operations, networth and financial income revenues its appetite for effective leadership and strategic direction naturally increases. Ultimately somehow the organization will reach a stage whereby it starts to enjoy the advantages of employing independent directors with high expert knowledge that the organization will fully utilize to address all of its business related issues proficiently. Generally independent directors have vast amounts of knowledge, skills and wisdom that they often transfer to the organization when guiding it in its various stages of growth (Australian Institute of Company Directors, 2018, <https://aicd.companydirectors.com.au/>). 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>).

- *Improved business performance by the organization*: outside directors or independent directors have the extra added advantage of bringing with them vast amounts of knowledge, experience, skills and wisdom that does not exist in the organization. Outside directors often become more

²⁵ 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).

useful in instances whereby they have been part of an organization (*in the past*) that was at the same growth stage as that of the organization since this makes the outside director more likely to know the various business related issues that are associated with a company in that particular stage of growth. On the other hand the organization can maximize on the outside directors' vast business network to: (1) create new customers, (2) find new suppliers, (3) generate new innovative ideas, (4) build its corporate image, (5) enter new local or foreign markets, (6) attract new investors or access new capital funding and so on²⁶ (Australian Institute of Company Directors, 2018, <https://aicd.companydirectors.com.au/>).

- *Better access to capital*: when an organization appoints a new board of business leaders who command a lot of respect in the marketplace as a result of their high quality qualifications, skills, vast experience and wisdom this helps to boost the corporate image of the organization, its integrity and market position. In addition the creation of a new independent board helps the organization to prove that it is totally dedicated towards achieving/maintaining good governance including compliance. Therefore if the organization wants to raise more financial capital it is more likely to be much more appealing to investors as they will have increased confidence in the organization due to the following: (1) visible independence shown in its board, (2) the existence of a board audit committee which will be led by a chairperson with adequate financial qualifications and experience (Australian Institute of Company Directors, 2018, <https://aicd.companydirectors.com.au/>).

- *Management answerability*: differentiating management and oversight properly results in the formation of a business with essential value since this helps to divert more focus towards governing and managing. Furthermore, managers often become answerable to the shareholders whom the board acts on their behalf (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.

²⁶ 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).

2.4 What is a director?

According to the Institute of Directors in the United Kingdom (2017) 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 contributions, much as employees²⁷ (Institute of Directors in the United Kingdom, 2017, www.iod.com/). The different types of directors will be covered in the following section.

2.5 Types of Directors

There are several types of directors that are found in organizations nowadays. Effective organizations often adopt a mixture of the different types of directors in order to grow and increase shareholder value. The different types of directors in an organization are depicted in Figure 2.1 below.

²⁷ Institute of Directors (2017) *What is a Director?* Available from: <https://www.iod.com/news/news/articles/What-is-a-director>

Figure 2.1 Eight types of directors



Source: Modified: (Institute of Directors in New Zealand, 2018; Institute of Directors, 2017; Rocket Lawyers, 2019).

As previously depicted by Figure 2.1 the eight different types of directors include the following:

2.5.1 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 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"²⁸ (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors>).

2.5.2 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
- 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” (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors>). Non-executive directors can also be referred to as ‘outside directors’.

²⁸ 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>

2.5.3 De jure directors

According to the Institute of Directors (2019) 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 liabilities²⁹ (Institute of Directors, 2017, www.iod.com).

2.5.4 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”³⁰ (Institute of Directors in New Zealand, 2018, <https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors>). In general an independent director can also be referred to as an ‘outside director’.

2.5.5 De facto directors

“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

²⁹ Institute of Directors United Kingdom (2017) *What is a Director?* Available from: <https://www.iod.com/news/news/articles/What-is-a-director>

³⁰ 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>

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”³¹ (Institute of Directors, 2017, www.iod.com).

2.5.6 Shadow directors

³²According 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 directors³³ (Institute of Directors, 2017, www.iod.com).

2.5.7 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

³¹ Institute of Directors United Kingdom (2017) *What is a Director?* Available from: <https://www.iod.com/news/news/articles/What-is-a-director>

³² 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

³³ Institute of Directors United Kingdom (2017) *What is a Director?* Available from: <https://www.iod.com/news/news/articles/What-is-a-director>

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 interest³⁴ (Australian Institute of Company Directors, 2016:5, <https://aicd.companydirectors.com.au/>).

2.5.8 Statutory directors

³⁵“*Statutory directors* have legal rights and duties. They collectively act and make decisions on behalf of the company. Saying someone 'sits on the Board of Directors' (the Board) or 'has been appointed to the Board' just means they are a statutory director. *Directors' who are not statutory directors*. Sometimes, departmental heads are called directors (e.g. Director of Communications) even though they are not statutory directors. Confusingly, if such individuals have not been appointed to the Board they do not have the legal rights and duties of a statutory director” (Rocket Lawyers, 2019, <https://www.rocketlawyer.co.uk>). The following section will cover the characteristics of an effective director.

2.6 Characteristics of an effective director

³⁶According 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. ³⁷The following are based upon and adapted from the key attributes developed by the IoD in the publication ‘Standards for the Board’:

³⁴ 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)

³⁵ Rocket Lawyers (2019) *Different Types of Company Director*. Available from; <https://www.rocketlawyer.co.uk/article/different-types-of-company-director.rl>

³⁶ Institute of Directors (2002) ‘*Standards for the Board*’ cited in Institute of Directors in the United Kingdom (2017). Available from: www.iod.com

³⁷ Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board* (Good practice for directors). Paperback – 19 April.

2.6.1 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.
- *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).

2.6.2 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.

2.6.3 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 causes³⁸ (Institute of Directors, 2002 cited in Institute of Directors in the United Kingdom, 2017, www.iod.com).
³⁹Furthermore, according to the Institute of Directors in the United Kingdom (2002) cited in Institute of Directors in the United Kingdom (2017, www.iod.com):

2.6.4 Communication,

- *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 needs.
- *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 feedback⁴⁰.

2.6.5 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.

³⁸ Institute of Directors (2002) '*Standards for the Board*' cited in Institute of Directors in the United Kingdom (2017). Available from: www.iod.com

³⁹ Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board* (Good practice for directors). Paperback – 19 April.

⁴⁰ Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board* (Good practice for directors). Paperback – 19 April.

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

2.6.6 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 unfairness⁴¹.
- *Risk acceptance*: Is prepared to take action that involves carefully calculated risk in order to achieve a desired benefit or advantage.

⁴¹ Institute of Directors (2002) Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors). Paperback – 19 April.

- *Tenacity*: Stays with a position or plan of action until the desired objectives are achieved or require adaptation⁴² (Institute of Directors, 2002 cited in Institute of Directors in the United Kingdom, 2017, www.iod.com). The next section will cover the roles of a director in a nonprofit-making organization.

2.7 Roles and responsibilities of directors in a ‘nonprofit making’ organization

“Board members are the fiduciaries who steer the organization towards a sustainable future by adopting sound, ethical, and legal governance and financial management policies, as well as by making sure the nonprofit has adequate resources to advance its mission”⁴³ (National Council of Nonprofits.org, 2019, www.councilofnonprofits.org). According to the National Council of Nonprofits.org (2019) THE BASICS. *What’s the role of the board of directors of a nonprofit corporation? ¿Cuáles son las responsabilidades legales de una junta directiva sin fines de lucro?* Just as for any corporation, the board of directors of a nonprofit has three primary legal duties known as the “duty of care,” “duty of loyalty,” and “duty of obedience.”

- *Duty of Care*: Take care of the nonprofit by ensuring prudent use of all assets, including facility, people, and good will;
- *Duty of Loyalty*: Ensure that the nonprofit's activities and transactions are, first and foremost, advancing its mission; Recognize and disclose conflicts of interest; Make decisions that are in the best interest of the nonprofit corporation; *not in the best interest of the individual board member* (or any other individual or for-profit entity).
- *Duty of Obedience*: Ensure that the nonprofit obeys applicable laws and regulations; follows its own bylaws; and that the nonprofit adheres to its stated corporate purposes/mission.

However, a board of directors does not exist solely to fulfill legal duties and serve as a fiduciary of the organization’s assets. Board members also play very significant roles providing guidance

⁴² Institute of Directors (2002) ‘*Standards for the Board*’ cited in Institute of Directors in the United Kingdom (2017). Available from: www.iod.com

⁴³ National Council of Nonprofits.org (2019) *Board Roles and Responsibilities*. Available from: <https://www.councilofnonprofits.org/tools-resources/board-roles-and-responsibilities>

to nonprofits by contributing to the organization's culture, strategic focus, effectiveness, and financial sustainability, as well as serving as ambassadors and advocates. Beyond fulfilling legal duties, board members can be important resources for the organization in multiple ways (National Council of Nonprofits.org, 2019, <https://www.councilofnonprofits.org/tools-resources/board-roles-and-responsibilities>). The next section will cover the roles of directors in a profit making organization.

2.8 Roles and responsibilities of directors in a profit-making organization

⁴⁴*Role* - The role of the director is to:

- consider the strategic vision for the company
- offer fresh thinking and additional skills and knowledge
- have extensive networks to help the company grow
- act in good faith and in the best interests of the company
- have no conflicts of interest with the company
- ensure that the company remains solvent
- not take advantage of their position as a director for personal profit (i.e. insider trading).

The value of directors comes to bear at meetings – a good board will try to debate an issue from every angle before coming to a decision. A director should be prepared, informed, and ready to debate and think about the strategic future. Some directors will have general skills, while others more specific, either way, they will add value to the company with a fresh perspective” (Institute of Directors New Zealand, 2018, <https://www.iod.org.nz/FirstDirectors/What-do-directors-do>). There are different types of boards in general and these will be covered in the following section.

2.9 Roles or titles found in a board

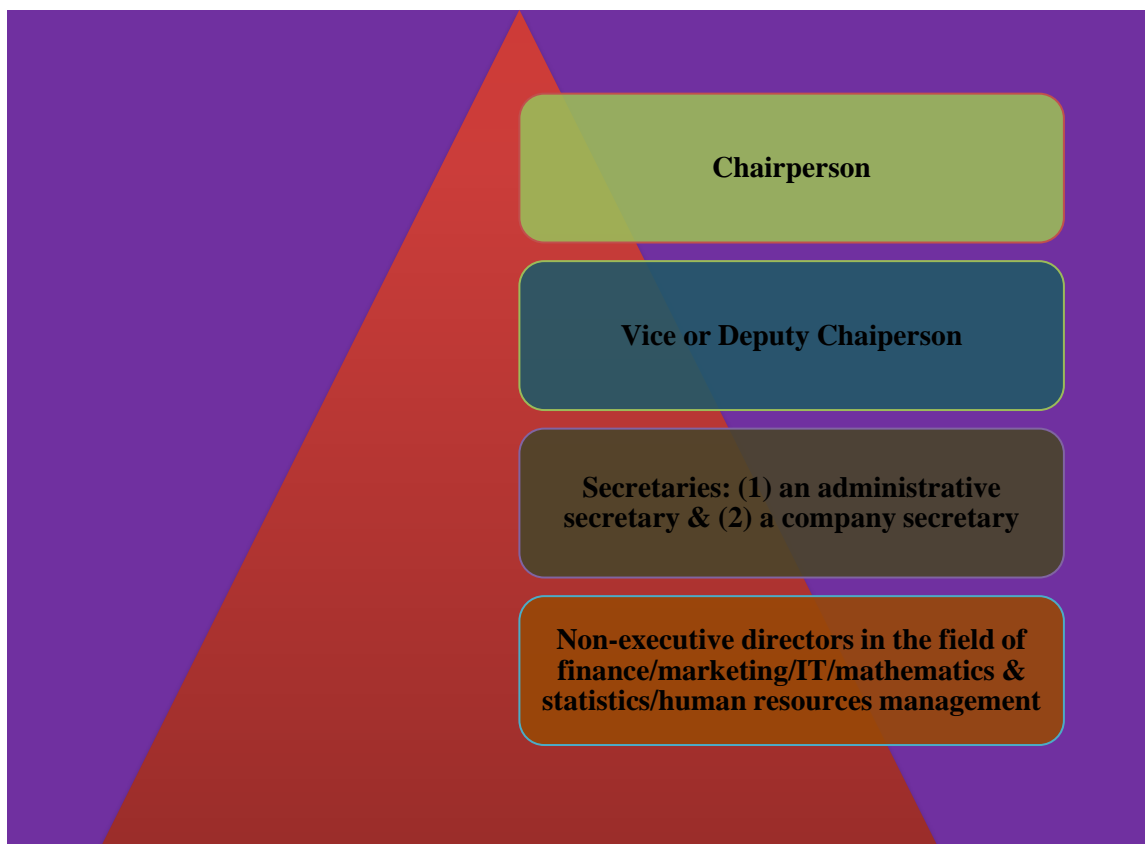
There are many titles that are found in a board and these vary based on whether the organization is a profit-making or non-profit making organization. In addition the size and type of the

⁴⁴ Institute of Directors New Zealand (2019) *What Do Directors Do?* Available from:

<https://www.iod.org.nz/FirstDirectors/What-do-directors-do>

organization also has a significant influence on the different types of board member titles' it is likely to have. As mentioned earlier in this Chapter 2 under the sub-heading 'types of directors' all the listed types of directors are some of the 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 2.2 below.

Figure 2.2 Job titles that are found in a board



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

As previously depicted by Figure 2.2 some of the various job titles that are found in a board are further discussed as follows:

2.9.1 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).

2.9.2 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.

2.9.3 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. Interestingly, the critical role of the company secretary has become much more important during the past number of years as it now involves: (1) managing the affairs of the organization and (2) the administration of the activities of the board. More emphasis has been placed by shareholders on corporate governance and transparency as a result of the scandals, business failures and mismanagement experienced by organizations during the late 1990s and the early 2000s. Nowadays the role of the chief governance specialist in an organization is now associated with the company secretary job role and in general the chief governance specialist is required to assist the organization with guidance or advice on how to execute good governance practices in the organization. However, company secretaries also have the duty of dealing with the organization's legal responsibilities apart from their regular duties of administering the business of the board⁴⁵ (Australian Institute of Company Directors, 2016:1, <https://aicd.companydirectors.com.au/>).

⁴⁵ Australian Institute of Company Directors, 2016, *Duties and responsibilities: Role of the company secretary*, Director Tools, Sydney, <http://aicd.companydirectors.com.au/resources/director-tools/practical-tools-for-directors>, (accessed 4 Dec 2018).

2.9.4 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 fiduciary duties of profit-making boards will be covered in-depth in the next section.

2.10 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



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

Figure 2.3 helped to depict the seven main duties of a board in a profit-making organization and these will be further discussed. ⁴⁶According to the International Centre for Corporate Governance (2018, www.icfcg.org/) *the checklist for the fulfillment of the duties of the board of directors*:

2.10.1.1 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.

⁴⁶ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

- 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 appropriate⁴⁷ (International Centre for Corporate Governance, 2018, www.icfcg.org/).

2.10.1.2 “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.

⁴⁷ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

- 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.
- 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 years⁴⁸ (International Centre for Corporate Governance, 2018, www.icfcg.org/).

⁴⁸ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

2.10.1.3 “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.
- 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 liquidity⁴⁹
- 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.

⁴⁹ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

- 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.
- 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”⁵⁰ (International Centre for Corporate Governance, 2018, www.icfcg.org/).

2.10.1.4 “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.

⁵⁰ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

- Monitor labor disputes and ensure that all unnecessary litigation is avoided” (International Centre for Corporate Governance, 2018, www.icfcg.org/).

2.10.1.5 “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 policy⁵¹.
- 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/).

⁵¹ International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

2.10.1.6 “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”⁵² (International Centre for Corporate Governance, 2018, www.icfcg.org/).

2.10.1.7 “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 conclusion of this chapter will be covered in the following section.

2.11 Conclusion

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. Board of directors must first be aware that in the boardroom they represent the interests of shareholders and the other stakeholders of the organization. The key benefits an organization can

⁵² International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

easily enjoy as a result of having a board include: the ability to properly evaluate its performance and productivity levels by fully utilizing the high intellectual capital and experience of its board of directors while on the other hand the organization is able to consistently keep up-to-date or comply with new legislation that affect its vision and mission statement.

2.12 Review questions

- (1) What is the meaning of the term board? Discuss the importance of the ‘board of directors’ to an organization?
- (2) Explain what is a director? Describe the types of directors?
- (3) Outline the characteristics of an effective director?
- (4) Discuss the roles and responsibilities of directors in a profit-making organization?
- (5) Identify the roles or titles found in a board?

Chapter 3: Board committees that require a human resources management expert to be involved

After reading this chapter you should be able to:

- Define the following term: board committees. Explain why organizations rely on board committees.
- Describe the various qualities that are associated with an effective committee.
- Discuss the different types of board committees.
- Identify and explain the different types of standing committees where human resources management experts must be involved.
- What is the meaning of the term: adhoc committees. Explain two types of adhoc committees.

3.1 Introduction

Today the world's most powerful and well governed corporations share one thing in common that is 'effective teamwork' in the form of board committees. The key ingredient that is used in the modern day highly volatile business environment to achieve good corporate governance is 'effective teamwork' via board committees. Every organization despite its size, type and or physical geographical location often thrives when it is being well led while on the other hand one of the characteristics of effective business leaders is that they often practice the adopted fundamental corporate governance principles of the organization in their day-to-day functional activities. The definition of terms will be covered in the following section.

3.2 Definition of terms

Today several publications such as journals, newspapers, magazines, websites and textbooks have highlighted the definition of board committees. "A *board committee* is a group of people to whom some specific role has been delegated (by the main board). Established to build expertise and lessen the workload of the full board, the role of committees is usually to research, review and make recommendations, and advise the board on specific matters. Generally made up of

board members, committees can also have independent members (*i.e. non-board members*). Committees have limited authority, power, and responsibilities, and each committee should operate under its own charter or terms of reference. The board retains ultimate responsibility for any actions made by the committee”⁵³ (Cook, L. cited in Get on Board Australia, 2019, <https://getonboardaustralia.com.au/>). Reasons why organizations rely on board committees will be covered in the following section.

3.3 Why organizations rely on board committees

“When established, charged and composed effectively, board committees can be a valuable asset to both your board and your management team by helping to:

- identify and examine key issues, concerns and questions ahead of board meetings.
- give laser focus to a project delegated by the board and/or helping to get things done more quickly and efficiently than would be possible for the full board.
- more equitably distribute the board’s work, since committee assignments can be dispersed among board members.
- facilitate trust-building between board members and management through their combined efforts. (It’s always a good idea to include relevant members of your management team on your board committees, too!)
- increase engagement among individual board members and help them make a more meaningful contribution to the board and to the credit union”⁵⁴ (Daigneault and Boden, 2016, <https://www.cumanagement.com/articles/2016/11/benefits-board-committees>).

⁵⁵According to Jo Iwasaki cited in Acca Global (2019) *What are board committees and their functions? Boards may assign specific tasks to committees to help them fulfill their diverse range*

⁵³ Cook, L. cited in Get on Board Australia (2019) *Board of Directors Advisory Board Management Committee Board Committee Where Do You Sit?* Available from: <https://getonboardaustralia.com.au/board-of-directors-management-committee-advisory-board-or-board-committee-where-are-you-sitting/>

⁵⁴ Daigneault, M.G. and Boden, J. (2016) *Benefits of Board Committees*. Available from: <https://www.cumanagement.com/articles/2016/11/benefits-board-committees>

of responsibilities. Committees can deal with specific tasks for which the board is responsible, but which it does not necessarily have enough time and resource to manage. By delegating tasks to committees, boards can spend their time more efficiently. Board committees meet according to their task, and as specified in their terms of reference. This might be at a specific time of the year (e.g. coinciding with the financial reporting and audit cycle for the company's audit committee) or at certain intervals. It is important that prospective board members consider whether they have sufficient time to dedicate not only to the work of the board, but also to that of a committee or committees because board committees are usually made up of a sub-selection of board members. While it is not mandatory to have board committees, particularly in companies that are not listed, many corporate governance codes, recommend as a best practice that companies set up an audit committee and, particularly in the case of large companies, remuneration and nomination committees. Many companies, especially in the financial services sector, also have ethics and risk committees (Jo Iwasaki cited in Acca Global, 2019, <https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html>). The various types of board committees will be discussed in-depth in the following section.

3.4 Types of board committees

“From standing and ad hoc committees to task forces and advisory councils, a board accomplishes its work through a variety of smaller groups. Associations need to regularly evaluate their existing committee structure and be ready to adjust it based on the organization's changing governance needs. Just as every board is unique, every board's committee structure is unique too. Most organizations have the same committee structure from year to year with little thought given as to what the committees do or whether they are still relevant to the organization. As a result, the committees have vague objectives, committee meetings are often endless discussions with no work achieved, and the members of the committees become bored or frustrated. Organizations should avoid the temptation to form too many committees. To be

⁵⁵ Jo Iwasaki cited in Acca Global (2019) *Sectors and Specialisms: NED and Trustee Advice*. Available from: <https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html>

effective (and to avoid burnout), board members should generally not serve on more than two committees. There are generally two types of board committees:

- *Standing committees* (also called operating committees) are those committees that an organization uses on a continual basis. They can be set forth in the organization's bylaws or in its board operations and policy manual, or they may be established by custom.
- *Ad hoc committees* are formed for a limited period of time to address a specific need. When the work of the ad hoc committee is completed, the committee is dissolved. An ad hoc committee may exist for less than a year or for a year or more depending on the extent of the work assigned to it⁵⁶ (Johnson, 2015, https://www.asaecenter.org/resources/articles/an_plus/2015/december/the-basics-of-board-committee-structure).

“The bulk of the board’s work should be done through its standing committees. Some boards have board development plans where members rotate through the different committees to gain a broad understanding of the organization. Others allow members to stay with the same committee each year to develop a deeper knowledge of the subject area to provide greater service to the organization. A balance of the two strategies allows board members to gain experience with different committees and to develop some expertise with the work of one or two committees. Ad hoc committees are often formed to amend the bylaws, recruit a new CEO, develop a strategic plan, relocate the organization, form a new subsidiary, launch a new division, or work with other organizations or coalitions. An ad hoc committee could also be formed to study and find creative solutions to a particular challenge an organization is facing, such as falling membership levels or poor communications. A board does not always need to add new committees to get its work done, nor must committee members always be members of the board. A *task force* can be formed if there is an objective that can be achieved in a relatively short period of time. Special events planning or analyzing a proposed merger are examples of work that can be handled by task forces. *Advisory councils* assist boards in carrying out their work by providing expertise and

⁵⁶ Johnson, E. (2015) *The Basics of Board Committee Structure*. Available from:

https://www.asaecenter.org/resources/articles/an_plus/2015/december/the-basics-of-board-committee-structure

advice in selected areas. ⁵⁷Advisory councils do not have any governance responsibilities and are a good way to include former board members, potential board members, subject matter experts, and others in the work of the board without placing them on the board. Not every volunteer makes a good board member. Sometimes a task force or advisory council is a better use of the volunteer's talent, experience and time. Ad hoc committees and task forces are a good way to involve non-board members in the board's work. Committees should perform regular self-assessments to determine if they are working effectively, achieving their established goals, and providing value to the organization. This can be done at the end of each committee meeting or on an annual or more frequent basis. Committee chairs and vice chairs should provide actual leadership to the committee. These are not empty titles but require real work in terms of translating the board's goals for the committee into meeting agendas and work plans. Committee chairs also report on the work of their committee to the Executive Committee and the full board. Committees with no work can be abolished, and committees with overlapping work can be merged. Committees should not take on a life of their own, nor should they overshadow the board itself" (Johnson, 2015, https://www.asaecenter.org/resources/articles/an_plus/2015/december/the-basics-of-board-committee-structure). The different types of standing committees that are often found in organizations will be covered in the following section.

3.5 Standing committees where human resources management experts must be involved

Several standing committees exist nowadays in organizations and these help organizations to maintain their corporate governance standards on a regular basis. In general standing committees are the commonly used forms of committees in organizations. The different types of standing committees where human resources management experts must be involved include the following:

3.6.1.1 Ethics & Compliance Committees are established in an organization to help enforce compliance with the organization's rules and practices that are concerned with upholding ethical

⁵⁷ Johnson, E. (2015) *The Basics of Board Committee Structure*. Available from:

https://www.asaecenter.org/resources/articles/an_plus/2015/december/the-basics-of-board-committee-structure

conduct and integrity amongst board members including the organization. A good example of an organization that uses Ethics & Compliance Committees is the leading commercial aircraft manufacturer ‘Airbus SE’ which is headquartered in Leiden in the Netherlands. ⁵⁸According to Airbus (2019) *The Ethics and Compliance Committee* assists the Board in overseeing Airbus’ culture and commitment to ethical business and integrity. It oversees the Company's ethics and compliance programme, organisation and framework for the effective governance of ethics and compliance, including all associated internal policies, procedures and controls (Airbus, 2019, www.airbus.com).

3.5.1.2 “*Health, safety & sustainability committee* - This committee supports and advises the Board of Directors on the development and promotion of a healthy and safe environment for employees and contractors as well as on sustainable development and social responsibility. It is also responsible for the following:

- Overseeing the resources and processes to be employed to minimize or eliminate risks to health and safety
- Overseeing health and safety performance of the Company, its employees and contractors
- Reviewing compliance with relevant health and safety legal and regulatory requirements, and internal policies and procedures
- Assessing performance and use of resources through reviews and audits, including periodic formal reviews of the Company’s health and safety performance”⁵⁹ (LafargeHolcim, 2019, <https://www.lafargeholcim.com/committees>).

3.5.1.3 “*Executive Committee*. Depending on the size of the board, it may be advantageous to form a small (three- to seven- member) Executive Committee that is authorized to meet and take action between board meetings when it is impractical to get the full board together for a special board meeting. The Executive Committee can also serve as an advisor to the chief executive officer and a liaison between the CEO and the full board. The Executive Committee is usually

⁵⁸ Airbus (2019) *Board and Board Committees*. Available from: <https://www.airbus.com/company/corporate-governance/board-and-board-committees.html>

⁵⁹ LafargeHolcim (2019) *Committees*. Available from: <https://www.lafargeholcim.com/committees>

charged with oversight of the organization's chief executive officer. While there may be a separate CEO search committee or a compensation committee, the Executive Committee will often hire the CEO and work with the CEO in establishing goals for the year, evaluating performance, and setting compensation. The Executive Committee reports on these activities to the full board. The members of the Executive Committee are often on that committee due to the position they hold within the organization. The chair and any vice chairs are normally on the Executive Committee" (Johnson, 2015, <https://www.asaecenter.org/>).

3.5.1.4 "Governance Committee. The Governance Committee is charged with the care and feeding of the board itself. The responsibilities assigned to this committee vary with each organization. As a general rule, the Governance Committee would be responsible for board recruitment, orientation, self-assessment, continuing education, and board management. Recruitment involves identifying current and projected vacancies on the board, assessing the composition of the current board and identifying gaps in competencies or demographics, and finding and recruiting potential board members. The Governance Committee is charged with developing a position description for board membership to inform prospective candidates of qualifications in terms of their experience and background and what will be expected of them if they join the board. The Governance Committee can also serve as the Nominating Committee for new board members and officers"⁶⁰ (Johnson, 2015, <https://www.asaecenter.org/>).

3.5.1.5 Remuneration committee. ⁶¹"*The role of the Remuneration Committee.* Devising the appropriate *remuneration packages* for the executive directors can be one of the most contentious issues a board faces - not least because of the publicity executive pay has attracted in recent years. Levels of remuneration should be sufficient to attract and retain the executive directors needed to run the company, but companies should avoid paying more than necessary. It is vital that decisions on executive remuneration, benefits and bonuses are seen to be taken by those who do not stand to benefit directly from them. In listed companies and some larger private

⁶⁰ Johnson, E. (2015) *The Basics of Board Committee Structure*. Available from:

https://www.asaecenter.org/resources/articles/an_plus/2015/december/the-basics-of-board-committee-structure

⁶¹ Institute of Directors (2019) *The Role of Board Committees*. Available from:

<https://www.iod.com/news/news/articles/The-roles-of-board-committees> [Accessed 2019, 24 October]

companies therefore, policy on executive remuneration is usually decided by a committee of non-executive directors. As a matter of good practice, executive directors should not be responsible for determining their own remuneration. The UK Corporate Governance Code recommends that this should be the remit of a remuneration committee made up of at least three or in the case of smaller companies two, independent non-executive directors” (Institute of Directors, 2019, www.iod.com).

3.5.1.6 Nomination committee. “The role of the Nomination Committee. One of the board's most crucial functions is to decide on *new appointments* to the board and to other senior positions in the company. Again, in some cases, this is done within a committee, composed of executive and non-executive directors, whose task it is to ensure that appointments are made according to agreed specifications. Where implemented, the appraisal of directors is often tied directly into the selection and nomination process. As a matter of good practice, the *selection process* of directors should be carried out by the nomination committee, which then makes recommendations to the full board. Non-executive directors should form a majority of this committee. The nomination committee will typically also ensure that *succession plans* are in place for the board and the executive level immediately below it” (Institute of Directors, 2019, www.iod.com). In the following section all aspects relating to adhoc committees will be covered in-depth.

3.6 Adhoc committees

Today numerous adhoc committees are used in organizations once in a while. “By their nature, ad hoc committees are formed when they are needed and dissolved when their work is done. Below are some examples of ad hoc committees”⁶² (Johnson, 2015, <https://www.asaecenter.org/>). Some of the two common types of adhoc committees used by boards include the following:

3.6.1 “Bylaws Committee. The Bylaws Committee is charged with reviewing the organization’s bylaws and current practices to ensure that they are synchronized. Over time, it is not uncommon

⁶² Johnson, E. (2015) *The Basics of Board Committee Structure*. Available from:

https://www.asaecenter.org/resources/articles/an_plus/2015/december/the-basics-of-board-committee-structure

for an organization's practices to evolve so that they no longer follow the bylaws. The Bylaws Committee assesses why this has happened and recommends changes to either the organization's practices or the bylaws. This group can also be used to review current best practices and governance trends and make recommendations on those the organization should consider adopting. A Bylaws Committee may work with the Governance Committee or Membership Committee. Since a review of the organization's bylaws and practices is usually only done every few years, this does not need to be a standing committee" (Johnson, 2015, <https://www.asaecenter.org/>).

3.6.2 "*Strategic Planning Committee*. Since it should take less than a year to develop or update an existing strategic plan, this task can be assigned to an ad hoc committee or a task force. Many organizations will choose to make it an ad hoc committee. Members of the Strategic Planning Committee are responsible for developing or updating an existing strategic plan for the full board's approval. They may also monitor the implementation of the plan and report on its progress to the full board. This ad hoc committee may work closely with the Finance Committee, the Membership Committee, and the Program Committee" (Johnson, 2015, <https://www.asaecenter.org/>). In the next section the conclusion of this chapter will be covered.

3.7 Conclusion

Board committees help to provide an opportunity for tasks to be divided according to career specialization of the board members. Poor leadership in an organization leads to the board of directors and executive management appointing incompetent people to manage the day-to-day activities of the organization while on the other hand it leads to high employee turnover of talented employees in the organization which ultimately reduces the productivity levels of the organization. It can therefore be concluded that board committees are divided into two namely: standing and adhoc committees. Generally committees enable the board to allocate tasks to board members based on their career field of specialization and they also help the board to solve some of its key challenges it might be facing at a particular time period due to inadequate time to use to properly address these challenges.

3.8 Review questions

- (1) Define the following term: board committees?
- (2) Describe why organizations rely on board committees?
- (3) Describe the different types of board committees?
- (4) List and explain the different types of standing committees where human resources management experts must be involved?
- (5) What is the meaning of the term: adhoc committees? Explain two types of adhoc committees?

Chapter 4: Recruitment and selection in brief

After reading this chapter you should be able to:

- Define what is a job description, job analysis and recruitment.
- Explain the meaning of the term employee selection. Discuss the various labour laws that are centered around the selection of job applicants in an organization.
- Describe the global trends of recruitment.
- Discuss how the recruitment function can become a competitive advantage.
- Explain why the employee selection strategy is important to an organization.

4.1 Introduction

The human resources management experts in the organization that are found in both the human resources departments and the board form part of the organization's life blood due to the fact that they cater for the welfare of the organization's most valued assets that is 'its employees'. People with the right skills, knowledge and experience generally add value into the organization's operational activities. Technology has become the central point to achieving high innovations, profitability, increased productivity levels and branding in organizations today. Thus this has led to organizations deciding to invest a lot of their scarce financial resources in finding people of the right caliber and educational backgrounds and this has ultimately resulted in the increased demand for knowledge workers in the global labour market. Today people related issues at the workplace keep on changing on a daily basis and they are also becoming more complex as a result of the highly dynamic operating business environment⁶³ (Hunter, 2002:3). Every organization needs a steady supply of current and future human resources with the appropriate skills, experience and personal qualities to use in achieving its set business goals. The recruitment of employees in an organization first starts with the drafting of a job description and a person specification to determine the type of job applicant the organization will need to fill-in the open vacancy and this information is obtained after carrying-out the job analysis process

⁶³ Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management.*, Pietermaritzburg: Bytes Document Solutions.

first. When the job description and person specification have been developed the recruitment process must commence followed by the selection process. Selection can be effective if all the information about the job (*tasks*) that is gathered from a job analysis is made available to the human resources management professionals on time when choosing the candidates in order to help them to have detailed and updated information about the key performance areas (*KPAs*) of the job. The key performance areas of the job become the criteria the job applicants have to surpass in order to qualify to be selected for the job^{64,65,66}. However, labour laws such as the U.S. Equal Employment Opportunity Commission *Title VII of the Civil Rights Act of 1964*, Equal Employment Opportunity (*Commonwealth Authorities*) Act 1987 (Australia), Trade Union and Labour Relations (*Consolidation*) Act 1992) (United Kingdom), and many other employment diversity-inclusion related laws in different countries tend to stipulate that employees should be selected using the job specification of the job. In addition some of these labour laws further state that job applicants must be treated as employees during the recruitment or selection process⁶⁷. According to the U.S. Equal Employment Opportunity Commission (2018) *Title VII of the Civil Rights Act of 1964* it shall be an unlawful employment practice for a labor organization: (1) to exclude or to expel from its membership, or otherwise to discriminate against, any individual because of his race, color, religion, sex, or national origin; (2) to limit, segregate, or classify its membership or applicants for membership, or to classify or fail or refuse to refer for employment any individual, in any way which would deprive or tend to deprive any individual of employment opportunities, or would limit such employment opportunities or otherwise adversely affect his

⁶⁴ U.S. Equal Employment Opportunity Commission (2018) *Title VII of the Civil Rights Act of 1964*. Available from: <https://www.eeoc.gov/laws/statutes/titlevii.cfm> [Accessed 2018, 05 April]

⁶⁵ Australian Government Federal Register of Legislation (2015) *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*. Available from: <https://www.legislation.gov.au/Details/C2004C00712> © Commonwealth of Australia 2018

⁶⁶ United Kingdom Government Legislation (2018) *Trade Union and Labour Relations (Consolidation) Act 1992*. Available from: <http://www.legislation.gov.uk/ukpga/1992/52/contents> [Accessed 2015, 24 October] © 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

⁶⁷ U.S. Equal Employment Opportunity Commission (2018) *Title VII of the Civil Rights Act of 1964*. Available from: <https://www.eeoc.gov/laws/statutes/titlevii.cfm>

status as an employee or as an applicant for employment, because of such individual's race, color, religion, sex, or national origin; or (3) to cause or attempt to cause an employer to discriminate against an individual in violation of this section (U.S. Equal Employment Opportunity Commission, 2018, *Title VII of the Civil Rights Act of 1964*). In addition the definition of recruitment and selection will be covered in the following section.

4.2 Definition of terms

“A *job analysis* is a process of identifying the tasks performed in a job and collecting and analysing information relating to those tasks. The objective of job analysis is to provide accurate and detailed information about jobs from which a variety of different personnel systems such as job description, job specifications and training programmes can be developed” (Hunter, 2002:61). A *job description* should be created to clearly list the duties, responsibilities and working conditions of the job. The *person specification* will also be created to determine the qualities the job incumbent is required to possess such as education, experience and interpersonal skills (Hunter, 2002:74). Generally the term 'staffing' encompasses all the policies, procedures and principles that firms utilize in order to attract, keep and nurture their human resources⁶⁸ (O'Meara and Petzall, 2009:5). The term 'staffing' is old and in the past it was used to refer to recruiting. “*Recruitment* can be defined as searching for and obtaining a pool of potential candidates with the desired knowledge, skills and experience to allow an organisation to select the most appropriate people to fill job vacancies against defined position descriptions and specifications”⁶⁹ (Australian HR Institute, 2018, www.ahri.com.au/). In general recruitment is a vital part of the human resources function. The type of people that are employed by an organization help to determine its future prosperity, profitability or failure in most instances⁷⁰ (Izuogu, 2015:162). Various definitions have been developed by human resources experts,

⁶⁸ O'Meara, B. and Petzall, S.(2013) *The Handbook of Strategic Recruitment and Selection: A Systems Approach*. First Edition. West Yorkshire: Emerald Group Publishing Limited, p3-7.

⁶⁹ Australian HR Institute (2018) *Recruitment and Selection*. Available from: <https://www.ahri.com.au/assist/recruitment-and-selection>

⁷⁰ Izuogu, S. A. (2015) Impact of Organizational Culture on Recruitment & Selection Practices in the Oil & Gas Construction Industry in Nigeria: SAIPEM in Focus. *European Scientific Journal June Vol 11(16)*, p161-165. Available from: <https://eujournal.org/index.php/esj/article/viewFile/5861/5584>

academics, business management gurus and other professionals to describe the meaning of the term ‘employee selection’. “*Selection*. The purpose of the selection process is to ensure that the best person or people are appointed to the role or roles using effective, fair and equitable assessment activities”⁷¹ (Australian HR Institute, 2018, www.ahri.com.au/). The above definitions clearly highlight that organizations should first search for people to hire through the recruitment and selection process. “Acquiring the best applicants for a role can be a competitive advantage for an organisation whereas ineffective recruitment and selection can result in enormous disruption, reduced productivity, interpersonal difficulties and interruptions to operations, customer service and long term costs” (Australian HR Institute, 2018, www.ahri.com.au/). The global trends of recruitment will be covered in the following section.

4.3 Global trends of recruitment

“New jobs are emerging, talent pools are shrinking, and competition is getting more intense. The only way to get ahead of all this is understanding the trends that are shaping how companies recruit and getting ahead of them. There are four trends in recruiting that we believe are transforming how you hire:

- Diversity: the new global mindset
- Candidate assessment tools: newest ways to identify top performers
- Data: the new corporate superpower
- Artificial Intelligence: your secret workhorse”⁷² (LinkedIn, 2018. “*Used with permission from Microsoft*”).

According to LinkedIn (2018) LinkedIn Talent Solutions has released its *Global Recruiting Trends 2018: The 4 Ideas Changing How You Hire* report, including insights from 8,800+

⁷¹ Australian HR Institute (2018) *Recruitment and Selection*. Available from:

<https://www.ahri.com.au/resources/ahriassist/recruitment-and-selection/> [Accessed October 02, 2018]

⁷² LinkedIn (2018) *GLOBAL RECRUITING TRENDS 2018: The 4 ideas transforming how you hire*. Available from:

<https://news.linkedin.com/2018/1/global-recruiting-trends-2018> [Accessed 2018, 12 September] “*Used with permission from Microsoft.*” [The Importance of Human Resources Management & Business Leadership in a Boardroom: 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.

recruiters and hiring managers on how the topics of diversity, new interview methods, data and artificial intelligence, are impacting recruiting today.

- *Diversity hiring.* Diversity hiring is the most embraced trend with 78 percent of talent leaders responding that they are tackling hiring diverse talent, head on. Why? Well, 78% of companies indicated they are prioritizing diversity to improve culture, and 62% are doing so to boost financial performance.
- *Reinventing the interview.* New interview techniques are gaining favor, such as assessing candidate soft skills (63%), understanding candidate weaknesses (57%) and interviewer bias (42%).
- *Data.* This new era of talent intelligence is a big step forward as it allows talent leaders to use data to influence future hiring. The top three ways companies noted they are using data is to increase retention (56%), evaluate skills gaps (50%), and build better offers (50%).
- *Artificial intelligence.* Recruiters and hiring managers, globally, shared that AI is a bold disrupter, and is helping them save time (67%), remove human bias (43%) and deliver the best candidate matches (31%). Respondent also said that AI is most helpful when sourcing candidates (58%), screening (56%) and nurturing candidates (55%)⁷³ (LinkedIn, 2018. *“Used with permission from Microsoft.”*)

““In addition based on a survey of 4000 Talent Acquisition decision makers working in HR, at Manager level or higher, on behalf of LinkedIn the following 2018 recruitment trends facts and figures were gathered. **56%** of leaders say that their team’s hiring volume will increase and in order to measure success they are focusing on how long a new hire stays at the company, hiring manager satisfaction, and time to fill. While nearly **70%** of recruiting budgets are spent on job boards, recruiting tools and staffing agencies, talent leaders identify employer branding as the number one area where they wish they could invest more. Over **80%** of leaders acknowledge that employer branding has a significant impact on their

⁷³ LinkedIn (2018) *LinkedIn 2018 Report Highlights Top Global Trends in Recruiting: Diversity ranked top priority for companies in 2018*. Available from: <https://news.linkedin.com/2018/1/global-recruiting-trends-2018> [Accessed 2018, 12 September] *“Used with permission from Microsoft.” [The Importance of Human Resources Management & Business Leadership in a Boardroom: 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.*

ability to hire talent. As many recruiting teams are struggling with resourcing employer branding, they look to their marketing partners for support. This usually includes joint ownership of social media channels and asset production”” (Manning Global Inc., 2018, www.manningglobal.com/ and blog.manningglobal.com). “Used with permission from Microsoft.” [The Importance of Human Resources Management & Business Leadership in a Boardroom: 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. The recruitment function can become a competitive advantage to the organization and this will be covered in the following section below.

4.4 Recruitment as a competitive advantage

“A *competitive advantage* is an attribute that allows a company to outperform its competitors. This allows a company to achieve superior **margins** compared to its competition and generates **value** for the company and its shareholders”⁷⁴ (Corporate Finance Institute Education Inc., 2018, <https://corporatefinanceinstitute.com/>). According to TalentLyft (2018) *competitive advantage* in HR refers to the quality of the employees who cannot be copied, unlike company's systems and processes. It comes down to the fact that companies with better employees have the competitive advantage⁷⁵ (TalentLyft, 2018, www.talentlyft.com/). “3 Steps to Make Recruiting Your Competitive Advantage. I heard three things:

4.4.1 *Properly staff your talent acquisition team.* If [recruiting is marketing](#), then organizations need to start putting their money where their mouth is. I’ve never worked for a company where sales and marketing positions were filled using requisitions. When a great sales person was identified, they were hired. We found the budget. Sales was *that* important. If talent is important to the company, then start doing the same for recruiters.

4.4.2 *Train the talent acquisition team.* [Everybody needs training](#). Everybody. It undermines the credibility of the talent acquisition function to look for candidates that are

⁷⁴ Corporate Finance Institute Education Inc. (2018) *Competitive Advantage*. Available from: <https://corporatefinanceinstitute.com/resources/knowledge/strategy/competitive-advantage/>

⁷⁵ TalentLyft (2018) *What is a Competitive Advantage*. Available from; <https://www.talentlyft.com/en/resources/what-is-competitive-advantage-in-hr>

self-learners and then not do the same for themselves. Professional development can improve morale, engagement, and retention. Organizations should want the individuals selling people on working for the company to be as excited as the candidates.

4.4.3 Give recruiters the tools. New recruiting tools are coming out all the time, [especially in technology](#). Recruiters need to be exposed to those new tools, so they can be determine if they're right for the organization. True – There are some old-school recruiting methods that are still very effective and those shouldn't be abandoned. But recruiting sources should be regularly evaluated for their effectiveness”⁷⁶ (HR Bartender, 2017, www.hrbartender.com/).

4.4.4 Effective recruitment & selection processes result in the organization achieving a competitive advantage. Today the labour market is currently battling the ‘war for talent’ especially the highly scarce skills and as a result this has complicated the recruitment function of each and every organization in the world that is currently seeking talented job seekers in the global labour market. The cost of recruiting has significantly increased over the past years due to the high demand for skills in the global labour market. Thus organizations that want to prosper in the recruitment activities are now required to offer their job applicants highly attractive remuneration rates in order to retain them over a long time period. In general an organization that consistently: (1) hires job applicants that possess the much sought after highly scarce skills; (2) successfully retains its highly skilled employees over a long time period; (3) attains a good positive reputation in the labour market as ‘a great place to work’ due to its fair or transparent recruitment process can easily attain a competitive advantage in the labour market. The ‘war for talent’ is consistently becoming more complicated on a daily basis therefore making the recruitment of scarce skills a bit more challenging for most of the organizations and this makes organizations that prosper in hiring top talent to easily attain a competitive advantage in recruiting. The following section will cover the reason why the employee selection strategy is important.

⁷⁶ HR Bartender (2017) *3 Steps to Make Recruiting Your Competitive Advantage*. Available from: <https://www.hrbartender.com/2017/recruiting/recruiting-competitive-advantage/>

4.5 Why the employee selection strategy is important to an organization

According to the Australian HR Institute (2018) *selection* – once a pool of candidates has been identified through the recruitment process the most appropriate candidate, or candidates are identified through a selection process including but not limited to interviewing, reference checking and testing.⁷⁷ (Australian HR Institute, 2018, www.ahri.com.au/). Furthermore, according to the Australian HR Institute (2018) *strategy* - having an effective recruitment strategy is paramount to the success of any organisation. The recruitment and selection function can become a costly and inefficient process if not approached in a systematic and proactive manner. A recruitment and selection strategy:

- Ensures that the organisation has the necessary skills, knowledge and attributes to meet current, future strategic and operational requirements,
- Ensures supply meets demand requirements,
- Increases the pool of potential applicants,
- Improves the selection process by ensuring that only those applicants that meet the requirements of the position are selected for further investigation,
- Can impact on the likelihood that a suitable candidate will accept a job offer,
- Increases organisational effectiveness (Australian HR Institute, 2018, www.ahri.com.au/). The conclusion of this chapter will be covered in the following section.

4.6 Conclusion

One of the most challenging task most human resources management professionals and board nomination committees are faced with today is locating the right job applicants with the required competencies, qualifications and expertise. The recruitment and selection of employees, executive directors and board of directors has become a critical task in any organization today and every organization needs to have employees, executive directors and board of directors who are responsible for the recruitment function. In general the role of recruitment is to produce an adequate number of job applicants to help secure the availability of adequate people with the

⁷⁷ Australian HR Institute (2018) *Recruitment and Selection*. Available from:

<https://www.ahri.com.au/assist/recruitment-and-selection>

prerequisite skills and requirements who will fill up board vacancies that may arise in the organization. Today organizations are now building their competitive advantage on the recruitment function by offering an amazing candidate experience, creating and displaying an attractive culture, defining their employee value proposition, shifting to agile recruitment practices and attracting high quality candidates to join their boards.

4.7 Review of questions

- (1) Define the following terms: job description, job analysis and recruitment?
- (2) Explain the meaning of the term: employee selection? Describe the various labour laws that are centered around the selection of job applicants in an organization?
- (3) Discuss the global trends of recruitment?
- (4) Explain how the recruitment function can become a competitive advantage?
- (5) Describe why the employee selection strategy is important to an organization?

Chapter 5: Recruitment of the board of directors

After reading this chapter you should be able to:

- Define the following terms: recruitment and employee selection. Describe how a board can start the recruitment of the board of directors.
- Explain who is responsible for the recruitment of the board of directors. Discuss the common reasons for developing a board recruitment process.
- Describe in-depth the board recruitment process.
- Draft a job description of a chairperson and draft a job description of the secretary of the board. Describe the job description of an executive director of the board.
- Identify the requirements or person characteristics' of a board chairman & an executive director.

5.1 Introduction

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, good-faith decisions that are in the best interest of the organization and its stakeholders⁷⁸ (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

⁷⁸ 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.

job is to follow proper recruitment processes”⁷⁹ (Leading Governance, 2013, www.leadinggovernance.com). *Recruiting the appropriately qualified and experienced people on the board*. Generally a board must have a diversity of unique skills, expertise knowledge and competencies since board members often have an assortment of different educational backgrounds accompanied by vast experience. The main aim in choosing board of directors is to establish a pool of diverse skills and hire experienced people in the board who can consistently work together in the form of teams comprised of individual board members who have a certain level of experience, competencies and personal characteristics or attributes that are in direct alignment with the: (1) reason to exist, (2) endeavors and (3) strategies of the organization. When the organization is choosing a new board of director it must take into account of the following: (1) their competencies, knowledge, personal qualities including experience that is necessary to govern the firm today and tomorrow. In addition it is also critical to select board of directors with adequate expert knowledge and wisdom of how to deal with the problems and opportunities the firm may be currently experiencing and or is more likely to experience in the next coming number of days, months or years⁸⁰ (Australian Institute of Company Directors, 2016:3, <http://aicd.companydirectors.com.au/>). The following section will cover the definition of terms.

5.2 Definition of terms

According to Hunter (2002:83) *recruitment* is the process of encouraging people to apply for jobs in an organisation and its objective is to have a pool of suitably qualified and experienced applicants from whom one or more employees can be selected (Hunter, 2002:83). The selection of employees is a continuous process that is carried-out whenever an organization has a job opening. “*Selection* is the process of screening applicants to ensure that the most appropriate

⁷⁹ 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>

⁸⁰ 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).

candidate is hired”⁸¹ (Human Resources Council of Canada, 2018, <http://hrcouncil.ca/>). The following section will help to provide a general overview on how the board can start its recruitment of board of directors.

5.3 How to start the recruitment of the board of directors

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. “*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 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”⁸² (Legon, 2014. www.agb.org/).

⁸¹ Human Resources Council of Canada (2018) *Getting the Right People*. Available from: www.hrcouncil.ca/hr-toolkit/right-people-selection.cfm [Accessed 2018, 24 September]

⁸³*The responsibilities of the board of directors during the selection process of a CEO.* In general one of the notable critical tasks of a board in an organization is selecting the CEO. The CEO is the one who leads the executive management and functional management team in the organization thus their importance to the organization must not be viewed as insignificant. CEOs and board members must generally ensure that they collectively work together on a continuous basis. Another key responsibility of the board of directors is dealing with the succession planning of the CEO in the organization. The desires and wants of a firm are generally not static but highly dynamic thus they keep evolving on a regular basis over time and this creates a situation whereby a CEO who is deemed a good fit in the organization today to be recognized as unfit to hold their CEO office in the long term. The needs of an organization will change over time and a CEO who is an excellent appointment today may become an unsuitable person to occupy the job position in the long term future of the organization. A typical good example is when a firm is in the process of carrying-out key change initiatives it can thus enjoy the advantages of having a CEO with good educational qualifications, knowledge and experience that is related to the key changes taking place in the organization while on the other hand when the key change initiatives have been successfully executed the organization may opt to pursue a different mix of skills, knowledge, personal qualities, wisdom and so on (Australian Institute of Company Directors, 2016:4). The following section will cover aspects about the parties responsible of the recruitment of board of directors in an organization.

5.4 Who is responsible for the recruitment of the board of directors

The hiring of new employees in the organization involves many people. “Having the right people on your board is absolutely fundamental to ensuring the organisation is run effectively and

⁸² 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.

⁸³ 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).

efficiently. As with any recruitment exercise, it is important to consider what role the board members will have, and the skills, knowledge and experience they need”⁸⁴ (Leading Governance, 2013, www.leadinggovernance.com). “Although the ultimate responsibility for board recruitment should fall on the shoulders of the board itself, CEOs can and must take a proactive leadership role to ensure an organization is recruiting the best possible people for its board”⁸⁵ (Nelson, 2015, <https://www.nscstrategies.com/governance/ceo-board-recruitment-responsibilities/>). It is important to point-out that some organizations today recruit employees and offer them job opportunities that allow them to do what they are good at and strongly passionate about in their career field. The human resources department and the nominations committee play a pivotal role in ensuring that the recruitment process commences and adheres to the organization’s human resources policies. The parties that are responsible for the recruitment function are depicted by Figure 5.1 below.

⁸⁴ Leading Governance (2013) *Board Member Recruitment*. Available from: <https://www.leadinggovernance.com/resource-public/people/board-member-recruitment>

⁸⁵ Nelson, R. (2015) *CEO Board Recruitment Responsibilities*. Available from: <https://www.nscstrategies.com/governance/ceo-board-recruitment-responsibilities/>

Figure 5.1 Parties responsible for the recruitment of board of directors in an organization



Source: Modified: (Nelson, 2015; Institute of Directors, 2018; Jo Iwasaki cited in Acca Global, 2019)

The parties that share the responsibility of the recruitment process of board of directors in an organization include the following:

- *Chief Executive Officer (CEO)* – “A CEO’s recruitment responsibilities range from ensuring that a vibrant and effective nomination / selection process is in effect to identifying potential candidate prospects to creating a governing environment that is attractive to great candidates. As a CEO, it is your responsibility to stay current on the latest developments and nominating processes/systems and introduce these concepts to the board for a full and complete dialogue, and consideration. If you don’t have a clear set of *attributes* against which to evaluate prospective candidates, one should be developed. In drafting the attributes, you might consider talking with some current board members to get their input on what attributes they think are most critical. Likewise, it is the CEO’s responsibility to write draft job descriptions for the board, which the board can ultimately adopt. Written job descriptions are a useful tool to keep the selection process focused on finding talent that meets the organization’s needs and serve as an

aid when clearly communicating expectations to prospective candidates. CEOs are also perfectly situated to conduct a gap analysis. Prior to the beginning of the nominating process a CEO should conduct a gap analysis that contrasts the current make up of the board with what might be considered the ideal board make up, based on the current realities of the environment, the strategic direction of the organization, and significant opportunities or challenges the board / organization will be facing over the next few years. The identified gaps can inform the candidate selection process. With a comprehensive gap analysis in hand, it is a matter of board members proactively identifying, cultivating and recruiting the best possible cadre of candidates for the job at hand. As part of the quest for increasing diversity of thought on the board, CEOs can act as catalysts for encouraging the identification of board candidate prospects that fall outside of the typical circles in which the board or governance committee members operate. In part, this begins with creating valuable experiences for new and fresh people to engage or interact with current leadership in the creation of member value” (Nelson, 2015, <https://www.nscstrategies.com/governance/ceo-board-recruitment-responsibilities/>).

- *The executive vice president of human resources or human resources director and or the human resources manager* – is the head of the overall functions of the human resources department namely; compensation, training & development, human resources management information systems & technology, talent management, labour relations, recruitment, employee wellness programs, workplace health & safety and so on. In multinational or global conglomerate organizations the head of the human resources department is called the executive vice president of human resources or the human resources director. All the managers who are responsible for the above mentioned human resources department functions all report to the executive vice president of human resources or human resources manager and or the human resources director. In general the human resources manager is responsible for the recruitment function in an organization and he/she ensures that they work closely with the recruitment manager, recruitment officers (*also known as recruiters*) and the line manager in the department where the vacancy exists in order to ensure that they gather accurate information to use in drafting the job description and person specification. The human resources manager must first be consulted for permission before a job advert is posted and he/she is responsible for ensuring that the job adverts meet the organization’s human resources policy required standards. The human resources manager is responsible for the following: (1) creating the human resources budget and

ensuring that the recruitment budget is sufficient to allow the organization to fulfill its human resources objectives on a regular basis, (2) drafting the recruitment policy that is in direct alignment with the organization's human resources strategy, (3) approving the form of media to use to advertise open vacancies in the organization, (4) approving the forms of technologies to use when conducting the recruitment process, (5) liaising with the recruitment manager and the head of the department where the open vacancy exists on all matters pertaining to the open vacancy, (6) designing the training and development programs of the human resources department employees such as the recruiters, (7) ensures that all recruitment activities in the organization are adhering to the organization's human resources policy (*which also includes the recruitment policy*) in order to directly align the above mentioned activities with the business strategy.

- *Chairperson* – “The chairman’s primary role is to ensure that the board is effective in its task of setting and implementing the company’s direction and strategy. The chairman is appointed by the board and the position may be full-time or part-time. The role is often combined with that of managing director or chief executive in smaller companies. The main features of the role of chairman are as follows: • As well as being chairman of the board, he/she is expected to act as the company’s leading representative which will involve the presentation of the company’s aims and policies to the outside world. • To take a leading role in determining the composition and structure of the board. This will involve regular reviews of the overall size of the board, the balance between executive and non-executive directors and the balance of age, experience and personality of the directors”⁸⁶ (Institute of Directors, 2018, www.iod.com).

- *The Nominations Committee* – “The *nomination committee* is responsible for leading the board appointment process, considering the requirements of the company and making recommendations to the board. This responsibility covers both executive and non-executive directors. Historically, the nomination committee might have attracted less attention from stakeholders than the audit and remuneration committees. This is changing, however, as the benefits of diversity on boards have become more widely recognised. The aftermath of the

⁸⁶ Institute of Directors (2018) *The Role of the Chairman*. Available from:

<https://www.iod.com/news/news/articles/The-role-of-the-chairman>

financial crisis reinforced the importance of oversight and rigour in the boardroom. The diversity debate first focused on the board as a whole, and on diversity of gender. Now, the scope of the debate is widening to include the executive pipeline and diversity beyond gender. Some countries encourage or require an employee representative on the board”⁸⁷ (Jo Iwasaki cited in Acca Global, 2019, <https://careers.accaglobal.com>).

- *Governance committee* - “*Governance Committee*. The Governance Committee is charged with the care and feeding of the board itself. The responsibilities assigned to this committee vary with each organization. As a general rule, the Governance Committee would be responsible for board recruitment, orientation, self-assessment, continuing education, and board management. Recruitment involves identifying current and projected vacancies on the board, assessing the composition of the current board and identifying gaps in competencies or demographics, and finding and recruiting potential board members. The Governance Committee is charged with developing a position description for board membership to inform prospective candidates of qualifications in terms of their experience and background and what will be expected of them if they join the board. The Governance Committee can also serve as the Nominating Committee for new board members and officers”⁸⁸ (Johnson, 2015, <https://www.asaecenter.org/>).

- *Job applicants* – the potential board members who are the people searching for employment play a vital role during the recruitment process of a board by sending their curriculum vitae/resumes and application forms to the organization’s human resources department to apply for open vacancies. Thus an organization’s hiring process cannot commence if the job seekers in the labour market are not consistently sending their job applications to the organization’s human resources department in order for it to submit to the nominations committee in most instances. The following section will help to highlight the reasons why an organization must develop a board recruitment process.

⁸⁷ Jo Iwasaki cited in Acca Global (2019) *Sectors and Specialisms: NED and Trustee Advice*. Available from: <https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html>

⁸⁸ Johnson, E. (2015) *The Basics of Board Committee Structure*. Available from: https://www.asaecenter.org/resources/articles/an_plus/2015/december/the-basics-of-board-committee-structure

5.5 Reasons for developing a board recruitment process

“Why develop a board recruitment process? While the task of recruiting board members might seem a little daunting, it’s important to take the time to find candidates with the right values, skills, attitude and commitment. After all, even though this is a volunteer job, being a board member is a crucial leadership role! These folks are going to be responsible for the financial and cultural well-being of your organization. They are defending and promoting your mission; acting as key spokespersons and possibly driving fund raising too. For small volunteer-led organizations, the board may be managing the day-to-day operations as well. In going through a structured application and review process, you can take the time to really get to know the potential board members and lay the foundation for building a strong relationship. This is critical, since this new recruit will become a very active member of your immediate board family or team, which will be working together to lead the organization for one or two years. It’s not about ‘filling seats’. An established recruitment process (that includes a well-defined role and expectations as well as an application and screening process) ensures that all candidates are qualified and evaluated using consistent criteria and process. So it won’t come down to a question of a referral gone wrong, an awkward situation or even worse, the desire to ‘uninvite’ a candidate who turns out to be a bad fit or poses any potential conflicts of interest. Finally, this is not a one-time exercise – you are building a long-term relationship. So it’s important to have a process in place rather than a stop-gap measure. While you’ll want to revisit the specific criteria on a regular basis to ensure they suit your current needs, having a recruitment process in place takes the pressure off”⁸⁹ (Wild Apricot, 2019, <https://www.wildapricot.com/articles/developing-a-board-recruitment-process>). The following section will cover the various steps involved in the board recruitment process.

5.6 The board recruitment process

The steps involved in the board recruitment process of an organization are depicted in Figure 5.2 below.

⁸⁹ Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from: <https://www.wildapricot.com/articles/developing-a-board-recruitment-process>

Figure 5.2 Four step board recruitment process



Source: Modified: (Apricot, 2019, www.wildapricot.com)

⁹⁰According to Wild Apricot (2019) *4-step board recruitment process*. After reviewing articles, guides and posts from a range of experts, we've compiled a 4-step board recruitment process to get you started.

5.6.1 Who should manage the recruitment process?

The key is to have a group of individuals committed to taking the time to establish and follow a structured process.

Step 1: Define your needs

But how can you know a candidate is a good match unless you've identified what you are looking for? To ensure an effective, highly functioning board, you need to define the role and expectations for board members. This means defining the job, understanding the skills required to be successful in that job, and identifying the values and qualities that will enable the new recruit to become part of a cohesive board team. It's also important to establish specific

⁹⁰ Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:

<https://www.wildapricot.com/articles/developing-a-board-recruitment-process>

expectations for individuals and the board as a whole in order to set goals and evaluate performance.

Do you have a job description?

Just like the hiring process for a paid job, when you are recruiting board members, you start with a job description that outlines: the position's key duties and responsibilities; the necessary requirements to fulfill those; and details on what the commitment entails. Here's an outline of the type of information to include in your job or role description. You can use this as a guideline to draft a job description that meets your organization's specific needs.

Benefits:

- What benefits are involved with being a board member for your organization? (e.g., making a difference (how?); satisfaction in working with an energetic, committed board team, attending special events, etc.)

Responsibility and Authority:

- To whom is the board member accountable?
- What authority does each board member have?
- What are the general responsibilities board members are expected to take on?

Term:

- How long are board members expected to serve?
- What are the conditions under which a board member can resign before the term is ended?
- What are the conditions under which a board member may be removed from the position? (this may be stipulated in your bylaws – so check wording)⁹¹

General Duties:

⁹¹ Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:

<https://www.wildapricot.com/articles/developing-a-board-recruitment-process>

- What are the typical duties expected of a board member? (e.g., attends regular (monthly?) board meetings; reviews monthly financial statements; participates in fundraising; participates in/manages committees; etc.)
- Are board members expected to manage or mentor the organization's staff?

Time commitment:

- Approximately what is the time commitment expected of board members? (e.g., number of hours for reviewing materials; attending board meetings; attending committee meetings, annual meeting, other tasks?)

Legal / Financial commitments:

- What are the legal implications of taking on this role? (e.g., liability; accountability?)
- What are the expectations in terms of bylaw development, monitoring, etc.?
- Are there financial expectations? (e.g., are board members expected to raise funds, provide sponsorships, etc?)
- What is the board member's role in the organization's finances? (e.g., is the board responsible for budget management? Is the board responsible for the organization's financial health?)

Qualifications / Skills Requirements:

- What general skills are needed? (e.g., inter-personal, problem-solving and communications skills, etc.)
- What are some of the other skills or expertise you may be looking for? (e.g., board governance, policy development, financial expertise, strategic planning, marketing skills, event management experience, etc.)

Are there specific skills or attributes you need right now?

Along with the specific job responsibilities, you need to think about the type of skills sets you need on the board – which skills are missing that are required to round out the board's framework? It can be helpful to have a [diverse board composition](#) – with members from different

backgrounds and with different skills-sets that complement one another, like players on a sports team.

What qualities do new recruits need to bring to the boardroom table?

While skills are definitely important, when it comes to guiding your non-profit's or association's mission, looking at the fit for values and qualities is also essential⁹² (Wild Apricot, 2019, <https://www.wildapricot.com/articles/developing-a-board-recruitment-process>). Furthermore, according to Wild Apricot (2019):

Step 2: Find candidates

The best case scenario is to develop leads (e.g., through a nominating or board development committee) and maintain a list of potential candidates throughout the year. If your organization has a process in place to keep track of individuals who offer to volunteer throughout the year, you can simply pull that information and begin screening those candidates. However, if there is no pre-existing list or database of volunteers, you might want to develop a process for gathering and storing this information from here on in. This could involve creating a specific Board Application Form (see the section below), or a more general volunteer application form, online database or at the very least, a spreadsheet. *(If you are a [Wild Apricot Membership Management Software client](#), you can capture this information a number of ways, such as creating a Volunteer Database and/or creating groups on Volunteer/[Membership Application](#) forms to enable data management and customized emails.)*

Getting the word out:

The first step is letting folks know that you have an opening on your board.⁹³ As we noted in our [Getting Started with Volunteer Recruitment](#) guide, there are a number of ways to get the message out, including:

⁹² Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from: <https://www.wildapricot.com/articles/developing-a-board-recruitment-process>

⁹³ Wild Apricot (2019) *How to Recruit Volunteers from Start to Finish*. Available from: <https://www.wildapricot.com/blogs/newsblog/2019/09/09/how-to-recruit-volunteers> [Accessed 2019, 20 September]

- **Referrals and word-of-mouth:**

The first place to start is with the standard request for referrals from existing board members and volunteers. Ask your existing team to look for candidates from among:

- Friends
- Family
- Colleagues and associates
- Neighbors
- Community members (at church; clubs; sporting teams, etc.)

- **Publicize within your network:**

To identify candidates from a wider network, consider:

- Writing a newsletter article or a post on your organization’s blog or forum

- **External promotion:**

You might need to widen your search to include:

- Putting an ad in your community newspaper
- Posting a request through your municipal or state/province volunteer center

- **Using online resources to find candidates:**

You can consider finding candidates using some online matching or volunteer programs such as:

- [LinkedIn Board Connect](https://www.linkedin.com/company/wildapricot) (Wild Apricot, 2019, <https://www.wildapricot.com/articles/developing-a-board-recruitment-process>). “Used with permission from Microsoft”. [The Importance of Human Resources Management & Business Leadership in a Boardroom: 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. Furthermore, according to Wild Apricot (2019):

Step 3: Screening and selection

Application form:

The application form (which can also be an online form) will help you gather and collect information about each applicant. Although board members may refer or recruit colleagues or friends, it's important that all candidates or prospects go through the full application and screening process to ensure consistency and to avoid any conflicts of interest or potential issues down the road⁹⁴.

Screening/interview process:

Once you've reviewed the applications, you need to develop a process for screening potential candidates so that you can develop a short-list for interviews.

Interview tips:

Holding an interview with all potential candidates offers an opportunity to discuss the role and find out about the candidate's: background, skills, interests, qualifications, personal goals. And, generally, to see if he or she is a good fit for the role, the board team, and the organization as a whole.

In preparing for the interview consider:

- Developing a standard set of questions (these should include questions around: skills to meet job description; values and attitude; time commitment; potential conflicts of interest based on career or other volunteer activities; discussion of any legal and financial commitments, etc.)
- Start the interview with an overview of the selection process
- Provide an overview of the organization and its mission/objectives
- Go over the board role description (even if they've received it beforehand)
- Create a form to document responses consistently across all applicants

Short-list:

Some organizations develop a short-list of candidates through the screening and interview process and actually invite them to attend a board meeting. Since the selection process may have

⁹⁴ Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:

<https://www.wildapricot.com/articles/developing-a-board-recruitment-process>

only involved a few of the board members, this meeting offers an opportunity for the board to meet and interact with the candidates. It also lets the individuals see first-hand what a board meeting is all about.

Selection:

The final step in the screening process is for the nominating committee to choose the finalist from among the short-listed candidates. Again, the final selection should be made based on a set of criteria in terms of a skills-set fit, as well as a discussion of the candidate's ability to fit with the board and the organization in terms of values, attitude and personality. *Some organizations also require that screening of board candidates involves a police record check.*

Once the choice has been made, each of the candidates needs to be notified (preferably through a personal call from the chair of the nominating committee) to officially invite them to join the board, or else to thank them and let them know if their services aren't required. If, however, any of the other short-listed candidates were considered a good fit, consider letting them know you'd like to call on them if there are any future openings on your board.

Along with the call, the new board member should receive a letter confirming his/her invitation to join the board and outlining the role, timelines, commitment and all pertinent details⁹⁵ (Wild Apricot, 2019, <https://www.wildapricot.com/articles/developing-a-board-recruitment-process>). Furthermore, according to Wild Apricot (2019):

Step 4: Provide an orientation for new board members

According to Wild Apricot (2019) congratulations – you've selected a new board member. But the process isn't quite done yet – you need to orient the new member so that they are ready to take on their new role. The orientation format can be done through providing a welcome package of information, an orientation video, a presentation or a training session – depending on your organization and its specific resources and needs. However, at a minimum, new board recruits should receive the following information:

⁹⁵ Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:

<https://www.wildapricot.com/articles/developing-a-board-recruitment-process>

- An overview of the organization – its mission, vision, values
- Organization chart – outlining structure (e.g., board, committees, staff roles & responsibilities, etc.)
- Organization’s annual report and any other pertinent financial reports
- Role description (and any additional documentation or forms that need to be completed)
- The organization's strategic plan
- Most recent board meeting minutes
- The organization's most recent newsletter and/or brochure
- Schedule of board meetings (and locations), annual meetings and any other events he/she is required to attend
- Contact information – board chair, members, staff contacts etc.⁹⁶ (Wild Apricot, 2019, <https://www.wildapricot.com/articles/developing-a-board-recruitment-process>). The contents of a job description of a chairperson will be covered in the following section.

5.7 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 him/her to competently perform on-the-vacant job. 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 organization⁹⁷(Hunter, 2002:73). 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

⁹⁶ Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from: <https://www.wildapricot.com/articles/developing-a-board-recruitment-process>

⁹⁷ Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management*. Pietermaritzburg: Bytes Document Solutions.

well. ⁹⁸According to the International Centre for Corporate Governance (2018, www.icfcg.org/) the job description of the chairman:

Table 5.1 Job description of a chairman

JOB DESCRIPTION Chairman of the Board of Muster AG
1. Job title: Chairman of the board
2. Main duties: <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - Board of directors
4. Job titles of the immediate subordinates: <ul style="list-style-type: none"> - Members of the EM (in the capacity as representative of the whole board) - Board Secretary - Internal Auditor <p>The job holder will represent: The interests of the company in the board of directors and to shareholders</p>
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

⁹⁸ International Centre for Corporate Governance (2018) *Job Description of Chairman*. Available from:

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

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.

5.8 Job description of the secretary of the board

A secretary of the board plays a vital role in the success of the organization.⁹⁹ According to International Centre for Corporate Governance (2018, www.icfcg.org/) the job description of the secretary of the board:

Table 5.2 Job description of the secretary of the board

JOB DESCRIPTION Board Secretary of the Muster AG

⁹⁹ 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>

<p>1. Job title: Secretary of the board of directors</p>
<p>2. Main duties:</p> <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: Chairman of the board of directors of Muster AG</p>
<p>4. Job title of direct subordinates: There are no direct reporting lines or subordinate employees to the Board Secretary</p>
<p>5. The job holder will represent: The job holder is substituting only by mutual consent</p>
<p>6. The job holder will be represented by: 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.

5.9 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”¹⁰⁰ (Masaoka, 2000, www.compasspoint.org/). According to Masaoka (2000) job description for executive director:

Table 5.3 Job description for executive director

<p>Executive Director</p> <p>The Executive Director is the Chief Executive Officer of _____. The Executive Director</p>
--

¹⁰⁰ Masaoka, J. (2000) *Job Description for Executive Director*. Available from: <https://www.compasspoint.org/board-cafe/job-description-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:

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 documents (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.

5.10 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 Governance¹⁰¹ (2018, www.icfcg.org/). These requirements apply to a director who seats in a board. These include:

5.10.1.1 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,

5.10.1.2 Leadership competencies

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

5.11.1.3 Conceptual skills

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

5.10.1.4 Professional competencies

- (1) Knowledge and experience of management principles, cycles and processes
- (2) Industry knowledge
- (3) Knowledge of English and French

¹⁰¹ International Centre for Corporate Governance (2018) *Job Description of Chairman*. Available from: <https://www.icfcg.org/best-practice/32-job-description-chairman.pdf>

(4) Familiarity with finance and accounting principles

(5) Knowledge of legal and economic context and principles

5.10.1.5 Other

(1) No personal or contractual relationships with competitors

(2) Reputation, Credibility”¹⁰² (International Centre for Corporate Governance, 2018, www.icfcg.org/).

5.11 Conclusion

One of the most challenging task most human resources management professionals are faced with today is locating the right job applicants with the required competencies, qualifications and expertise. The recruitment and selection of employees has become a critical task in any organization today and every organization needs to have employees who are responsible for the recruitment function. 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. The parties that share the responsibility of the recruitment of board of directors in an organization include the CEO, chairperson, human resources manager, nominations committee and the job applicant. Today organizations are now building their competitive advantage on the recruitment function by offering an amazing candidate experience, creating and displaying an attractive culture, defining their employee value proposition, shifting to agile recruitment practices and attracting high quality candidates. The hiring process of employees in an organization is vital since the long-term success of the organization greatly relies on it. Thus only when the recruitment process is complete can the selection process be implemented.

¹⁰² International Centre for Corporate Governance (2018) *Duties of Board Members*. Available from: <https://www.icfcg.org/board-tools/duties-of-board-members.pdf>

5.12 Review questions

- (1) Define the following terms: recruitment and employee selection? Explain how a board can start the recruitment of the board of directors?
- (2) Identify who is responsible for the recruitment of the board of directors? Describe the common reasons for developing a board recruitment process?
- (3) Describe in-depth the board recruitment process?
- (4) Draft a job description of a chairperson and draft a job description of the secretary of the board? Discuss the job description of an executive director of the board?
- (5) Explain what are the requirements or person characteristics' of a board chairman & an executive director?

Chapter 6: Ethics & compliance of the board of directors - how the human resources function collaborates with the ethics function

After reading this chapter you should be able to:

- Define the following terms: ethics, code of ethics, code of conduct and compliance. Identify the key components of business ethics.
- Describe how the Ethics Department collaborates with the HR department. Explain how ethical behavior of people in the organization can be incentivized.
- What is the purpose of a Code of Conduct.
- Discuss the various ways to reduce ethics & compliance risk. Identify two examples of organizations with ethical & compliance standards of your choice?
- Describe all the terms identified in the glossary of terms in business ethics highlighted in this chapter.

6.1 Introduction

The number one question most of the world's largest corporations keep asking themselves is '*who will get there first?*' in terms of being considered to be a 100% ethical & compliant organization in the global marketplace. This golden question has immensely put pressure on board of directors, CEOs and managers in organizations around the world to continuously shift their focus on re-inventing their core beliefs, principles and corporate culture to reduce their ethics and compliance risk. ¹⁰³“In general, ethics are a set of morals and principals that define what is good and bad” (Upcounsel, 2019, www.upcounsel.com/). According to the Corporate Finance Institute (2019) by definition, *business ethics* are the moral principles that act as guidelines for the way a business conducts itself and its [transactions](#). In many ways, the same guidelines that individuals use to conduct themselves in an acceptable way – in personal and

¹⁰³ Upcounsel (2019) *Different Types of Business Ethics*. Available from: <https://www.upcounsel.com/different-types-of-business-ethics>

professional settings – apply to businesses as well¹⁰⁴ (Corporate Finance Institute, 2019, <https://corporatefinanceinstitute.com>).¹⁰⁵“This form of ethics deals with the moral questions that arise in business settings. The implementation of business ethics begins at the top. Business leaders, directors, and CEO's have the responsibility to show good business morals. Employees will follow the lead of those in charge. If their bosses adhere to ethics, so will they. And the opposite is also true: if the leadership ranks don't use ethics as their driving force, the employees below them won't, either. You must motivate everyone in your company to have good ethics by setting a good example and defining the consequences of being unethical” (Upcounsel, 2019, <https://www.upcounsel.com/different-types-of-business-ethics>). The following section will deal with the definition of terms used in the field of business ethics in detail.

6.2 Definition of terms

In general the field of ethics is broad therefore numerous definitions have been developed by academics, experts and authors in the field over the past number of years. The term ‘*ethics*’ refers to a set of principles that help to shape an individual’s or organization’s culture, thinking or mindset towards their behavior, morality, conscience and ethos on what they believe is right or wrong in general (Rudolph. Patrick. T. Muteswa, 2019). “A *code of ethics* is broad, giving employees or members a general idea of what types of behavior and decisions are acceptable and encouraged at a business or organization”¹⁰⁶ (Betterteam, 2019, www.betterteam.com). “***Code of Conduct*** can refer to a listing of required behaviors, the violation of which would result in disciplinary action. In practice, used interchangeably with Code of Ethics. ***Compliance*** - conforming or adapting one’s actions to another’s wishes, to a rule or to necessity. A compliance code would be intended to meet all legal requirements. *Ethics culture* includes ethical leadership (tone at the top); supervisor reinforcement of ethical behavior; and peer commitment to support

¹⁰⁴ Corporate Finance Institute (2019) *Business Ethics*. Available from:

<https://corporatefinanceinstitute.com/resources/knowledge/other/business-ethics/>

¹⁰⁵ Upcounsel (2019) *Different Types of Business Ethics*. Available from: <https://www.upcounsel.com/different-types-of-business-ethics>

¹⁰⁶ Betterteam (2019) *Code of Ethics and Professional Conduct*. Available from: <https://www.betterteam.com/code-of-ethics-and-professional-conduct>

one another in doing right. *Credo* - fundamental beliefs (or a set of beliefs) or guiding principles” (Ethics & Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/toolkit-glossary/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”. ‘Values’ these represent what we stand for and what we want to be associated with in terms of our core beliefs, culture and identity in general (Rudolph. Patrick. T. Muteswa, 2019). In the following section the key components of business ethics will be outlined in detail.

6.3 Key components of business ethics

¹⁰⁷“There are many different types of business ethics that professionals should be familiar with. Also known as corporate ethics, business ethics regulate the way that businesses conduct themselves and provide guidelines for behaving in positive, moral ways. Business ethics have [various components](#) that govern how businesses and companies should operate. Some of those components include the following:

- Trustworthiness and solidarity.
- Respect and responsibility.
- Fairness and equality.
- Caring and dialogue.

These [key components](#) should be taken into consideration when developing a business ethics plan. They will create a strong foundation for your business so that you can operate in a moral way. Bringing trustworthiness and honesty to all of your communications and actions will encourage your customers to continue giving you their business. Your customers will feel appreciated when you take responsibility for your actions and operate in a fair and caring manner. Keeping your word also proves your trustworthiness. All the members of a business should know that they are important and have the opportunity to succeed. But employees should

¹⁰⁷ Upcounsel (2019) *Different Types of Business Ethics*. Available from: <https://www.upcounsel.com/different-types-of-business-ethics>

also prove they have integrity through their words and actions. Character matters in business. When interacting with customers and employees, it's imperative to be fair and just. Never take advantage of other people's mistakes, and treat all people equally” (Leonard, 2019 cited in Upcounsel, 2019, <https://www.upcounsel.com/different-types-of-business-ethics>). The next section will discuss the role that is played by ethics & compliance committees of boards in the organization.

6.4 How the Ethics Department collaborates with the HR department

According to the Institute of Business Ethics (2014:1) *Collaboration Between the Ethics Function and HR*. When embedding ethical values into organisational culture, the roles of the company Ethics and HR functions can frequently overlap. It is important therefore that they work together effectively to ensure this happens. This Briefing identifies the areas where HR and the Ethics department can work together and looks at ways in which effective partnerships can be formed.

6.4.1 ¹⁰⁸ ¹⁰⁹Recruitment and exit interviews: Job applicants are increasingly concerned about the ethical conduct and reputation of an organisation. HR are often the first interaction that a potential employee has with the company and where they get their initial impression of the organisational culture. The Ethics function can inform HR about how the company approaches its corporate responsibility and ethical commitments so they are able to effectively answer interviewee’s questions. This, as well as including ethics issues, questions and dilemmas at the interview stages of recruitment can help HR ensure new employees are aware of, and accept, the behaviours expected of them by an organisation. Including questions around the company values, expected behaviours and organisational culture in exit interviews can also provide useful information for monitoring the effectiveness of the ethics programme. HR and the Ethics

¹⁰⁸ Institute of Business Ethics (IBE) (2014) Collaboration Between the Ethics Function and HR. *Business Ethics Briefing, Issue 40*. Available from: https://www.ibe.org.uk/userassets/briefings/b40_hr.pdf [Accessed 2019, 04 August] p1-4

¹⁰⁹ IBE Business Ethics Briefing 17 (2010) *Ethical Due Diligence in Recruitment*. Available http://www.ibe.org.uk/userassets/briefings/ibe_briefing_17_ethical_due_diligence_in_recruitment.pdf

function can work together to identify what to ask to assess whether ethical concerns were a reason for an employee leaving.

6.4.2 Induction: Often overseen by HR, induction is an opportunity to provide new employees with an objective view of the company, organisational culture, work ethic and expected behaviours. Therefore, to support this process effectively and assist employees with their integration into the workforce, the Ethics function can provide HR with relevant materials.

6.4.3 Training: Ensuring *all* training sessions include a focus on expected behaviours is a key way to ensure that ethical values are understood and applied by employees and ethical conduct is not viewed as an ‘add on’. Learning and Development experts are often positioned in HR and can deliver training together with the Ethics team where possible, thus allowing the functions to utilise shared knowledge and expertise. HR can also use employee records to help monitor which employees have or have not completed training or ‘refresher’ training.

6.4.4 Speak Up: Ownership of the Speak Up process can vary company to company but HR and the Ethics function commonly both play a role. There are many issues that stakeholders may speak up about including bullying, harassment, discrimination, violence etc. that are relevant to both functions. Although typically the domain of HR, consequent investigations to resolve issues might include the involvement of the Ethics team too. Rather than come through other official Speak Up channels, employee concerns may also be handed directly to either HR or the Ethics department. Both teams can then liaise about the logging and management of these cases as well as any training or awareness actions that may be required¹¹⁰.

6.4.5 Performance management and appraisals: Assessing employees’ application of ethical values through appraisals can encourage them to behave ethically. Developing a rewards system for ethical behaviour, such as remuneration, promotion or ethics ‘awards’, are ways of encouraging and reinforcing the expected ethical behaviour of employees. HR and the Ethics function can work together to develop an employee incentive system for their organisation to

¹¹⁰ Institute of Business Ethics (IBE) (2014) Collaboration Between the Ethics Function and HR. *Business Ethics Briefing, Issue 40*. Available from: https://www.ibe.org.uk/userassets/briefings/b40_hr.pdf [Accessed 2019, 04 August] p1-4

reward employees who demonstrate ethical behaviours. HR could provide the Ethics function with (anonymous) results from staff appraisals. These would help towards monitoring the effectiveness of the ethics programme or help to see where further training should be focused. In disciplinary matters there is often an ethical element. The Ethics function could be consulted by HR on whether a particular behaviour is acceptable and HR can then implement corrective action when it is not.

6.4.6 ¹¹¹Staff survey: One way of taking the ‘ethical temperature’ of a business is to survey employees about their experiences, perceptions and awareness of the organisation’s ethical values and business practices. HR may oversee the surveying but the Ethics function can provide insight regarding ethical challenges the company is facing and input into the questions that are asked. Findings can then inform future training needs.

6.4.7 ¹¹²Ethics Ambassadors: The Ethics function might approach HR to help identify employees to act as ‘ethics ambassadors’ (EAs, also sometimes called ‘ethics champions’). HR may be well positioned to do this because of the information they hold on employees including job descriptions, appraisal results and accountabilities. HR can also help the Ethics function to communicate what and who EAs are within the organisation.

6.4.8 Reporting to the Board: Most boards are interested in whether a company is operating ethically and in line with corporate values or not.

6.4.9 Internal Communications: HR are often the owner or champion of the internal communications process in which multiple channels of information that can directly reinforce the messages around ethical culture and expected behaviours exist. These include newsletters, intranet, social media etc. and provide opportunities for ethics messages to be cascaded internally. HR can be invaluable to the Ethics team in terms of communications when new programs are being implemented locally. They can provide expertise on labour relations issues as

¹¹¹ IBE (2008) *Surveying Staff on Ethical Matters*. Available to order from <http://www.ibe.org.uk/list-of-publications/67/47>

¹¹² IBE (2010) *Ethics Ambassadors*. Available to order from <http://www.ibe.org.uk/list-of-publications/67/47>

well as reviewing translations so that they fit with the local culture but at the same time still mean the same in legal terms (Institute of Business Ethics, 2014:1-4, https://www.ibe.org.uk/userassets/briefings/b40_hr.pdf). The following ethical behavior of people in the organization can be incentivized.

6.5 Ethical behavior of people in the organization can be incentivized

¹¹³According to the Institute of Business Ethics (IBE) (2009:1) *Incentivising Ethical Behaviour in Staff*. Too often companies experience a gap between having a business ethics policy and programme in place and its absorption by employees. In considering ways of closing this gap, a number of organizations are no longer relying on negative deterrents but are developing positive incentives to encourage high ethical standards throughout their business. Some argue that the only reward necessary to incentivise ethical behaviour in an organisation is a clear conscience. To be assured that they 'are doing the right thing; would be considered by some to be reward enough. But not by all; ethical lapses continue. Some organisations find that a more active approach is an effective way to sustain high ethical standards; that is 'incentivisation'.

6.5.1 Sticks and carrots. There are two principal ways in which employees can be incentivised to take into account ethical aspects of both their decision making and their relations with their organisation's principal stakeholders. The first, is the threat of disciplinary action when any part of the code of ethics (or its equivalent) is breached. The second, rewards, is the provision of some form of inducement to behave ethically whatever the situation.

6.5.2 Rewards. The rewards approach is to provide either a monetary or a non-financial incentive to employees to take ethics seriously. Rewards may be linked to annual performance appraisals which require the employee to demonstrate awareness and understanding of the organisation's ethics policy and how they are applying it in their day-to-day business life. Examples of questions that could be asked are: "*Did you have any occasion this year to ask a question*

¹¹³ Institute of Business Ethics (IBE) (2009) *Incentivising Ethical Behaviour in Staff. Business Ethics Briefing, September Issue 11*. Available from:

https://www.ibe.org.uk/userassets/briefings/ibe_briefing_11_incentivising_ethical_behaviour_in_staff.pdf

[Accessed 2019, 04 August] p1-3

starting 'ought we or 'should' we...?' and "Are you aware of anything happening in this (company/department) that is contrary to the values or code of ethics of the organisation?" (Institute of Business Ethics, 2009:1-3, https://www.ibe.org.uk/userassets/briefings/ibe_briefing_11_incentivising_ethical_behaviour_in_staff.pdf). The purpose of a code of conduct will be discussed in the following section.

6.6 Purpose of a Code of Conduct

In an organization one of the most valuable documents after a 'Vision and Mission Statement' is a 'Code of Conduct' since it helps to shape the behavior of the board of directors, management and employees while simultaneously outlining the corporate culture identity of the organization. ¹¹⁴The purpose of a Code of Conduct in an organization was clearly pointed-out in an article by the Ethics Compliance Initiative (2019) titled 'Code of Conduct' published by <https://www.ethics.org> and the purpose of a code is clearly depicted in Table 6.1 below.

¹¹⁴ Ethics Compliance Initiative (2019) *Code of Conduct*. Available from: <https://www.ethics.org/resources/free-toolkit/code-of-conduct/> "© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".

Table 6.1 Different purposes of a code of conduct

Purpose of a Code of Conduct
<ul style="list-style-type: none"> • “Regardless of whether your organization is legally mandated to have a code of conduct (as public companies are), every organization <i>should</i> have one.
<ul style="list-style-type: none"> • A code has value as both an internal guideline and an external statement of corporate values and commitments.
<ul style="list-style-type: none"> • A well-written code of conduct clarifies an organization’s mission, values and principles, linking them with standards of professional conduct. The code articulates the values the organization wishes to foster in leaders and employees and, in doing so, defines desired behavior.
<ul style="list-style-type: none"> • As a result, written codes of conduct or ethics can become benchmarks against which individual and organizational performance can be measured.
<ul style="list-style-type: none"> • Additionally, a code is a central guide and reference for employees to support day-to-day decision making. A code encourages discussions of ethics and compliance, empowering employees to handle ethical dilemmas they encounter in everyday work.
<ul style="list-style-type: none"> • It can also serve as a valuable reference, helping employees locate relevant documents, services and other resources related to ethics within the organization” (<i>Ethics Compliance Initiative, 2019</i>).

Source: Modified: (*Ethics Compliance Initiative, 2019*, <https://www.ethics.org/resources/free-toolkit/code-of-conduct/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

The various ways an organization can reduce ethics and compliance risk will be discussed in the following section.

6.7 Ways to reduce ethics & compliance risk

The various ways an organization can reduce ethics & compliance risk will be depicted in Figure 6.1 below.

Figure 6.1 Six ways an organization can use to reduce ethics & compliance risk



Source: Modified: (Ethics Compliance Initiative, 2019, <https://www.ethics.org/> & Institute of Business Ethics, 2019, www.ibe.org.uk)

¹¹⁵According to the Ethics Compliance Initiative (2019) your company’s good name and the trust of stakeholders are two of its most important assets. You can protect your company’s reputation and increase employee engagement by creating a workplace where ethical conduct is the norm. Reduce ethics risk by taking these five key steps:

¹¹⁵ Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk*. Available from: <https://www.ethics.org/resources/free-toolkit/reducing-risk/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

6.7.1 Honestly assess your needs and your resources

Successful businesses start with a good plan. So do successful ethics and compliance programs. In order to create a relevant and meaningful plan, you have to know the lay of the land. It's important to know:

- What ethics challenges are common in the work we do? In our workplace?
- Where are our greatest areas of risk? Which groups of employees, locations, business units, etc. are potential 'hot spots'?
- What values are important to our company and its employees?
- What values are necessary for our business, our work in particular?
- What ethics and compliance resources will be most beneficial for employees? What vehicles of support (a phone line, an email, an individual or committee, internal social network, etc.) are likely to be most utilized and helpful?
- In developing our code and values, which groups' input is necessary? Who would be helpful? (For more information on this, see our resources on writing a code.)¹¹⁶

Your program will only make a difference if you begin by having an accurate picture of existing strengths and areas of vulnerability. Risk assessment should be the starting point of your internal efforts, followed by gap analysis and program assessment. Audit reports are also an essential piece of the puzzle. You can gather information in a variety of ways. Focus groups allow representative samples of the larger population to share their opinions and experiences; they provide a deep, rich 'snapshot' of the state of ethics in your organization. Surveys (internal or conducted by a third party) provide the opportunity to gather information from a much larger

¹¹⁶ Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk*. Available from: <https://www.ethics.org/resources/free-toolkit/reducing-risk/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

group of your employees, to compare results and to analyze data by relevant subgroups (i.e., employee levels, departments, units, etc.)¹¹⁷

6.7.2 Establish a strong foundation.

Once you know your needs, you can put in place the resources to address them by establishing a robust ethics and compliance program. The good news is that such a program makes a difference.

6.7.3 Build a culture of integrity — from the top down.

People have an innate desire to get along and (long-past high school) want to fit in and conform to the norms of those around them. It may not be pleasant to admit it, but most people’s ethics standards are fairly malleable. Although most people retain a desire to ‘do the right thing,’ the definition of right is significantly influenced by the company they keep. Culture matters. Fortunately, if your company has diligently built an ethics and compliance program and woven it into the daily operations of the organization, a strong ethics culture is far more likely. Research proves that an effective ethics and compliance program helps build a culture of integrity in which everyone ‘walks the talk.’ In a strong ethics culture, employees at all levels are committed to doing what is right and upholding values and standards. Leaders are powerful drivers of corporate culture; they set the tone in any organization. They decide who gets attention, who gets promoted, what merits rewards and recognition. They set the standard. They are the example. There are several things leaders should do to help promote a strong ethics culture:

- Talk about the importance of ethics.
- Keep employees adequately informed about issues that impact them.
- Uphold promises and commitments to employees and stakeholders.
- Acknowledge and reward ethical conduct.

¹¹⁷ Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk*. Available from: <https://www.ethics.org/resources/free-toolkit/reducing-risk/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

- Hold accountable those who violate standards, especially leaders.
- Model ethical conduct both professionally and personally.

When it comes to ethical leadership, there are *two key things to keep in mind*: (1) Character is paramount. Ethical leaders show integrity not only in the way they conduct themselves at work, but in their personal relationships as well. (2) Leadership happens at all levels. While senior leaders set the tone for the entire organization, supervisors shape the everyday environments in which employees work and make decisions. The actions of supervisor have a profound impact on employees and their workplace conduct¹¹⁸.

6.7.4 Keep a “values focus” in moments big and small.

Ethics is about choices-big and small. Organizations with integrity keep their values at the forefront in both mundane and the extraordinary moments. Corporate values should come into play and be reflected in multiple processes that drive the everyday life of the company, including:

- HR policies and their implementation
- Reward systems
- Hiring and retention
- Performance management and evaluation
- Promotion decisions

On those occasions when crises occur, leaders should recognize not only the ethical dimension of the moment at hand, but the ‘teachable moment’ it represents.

¹¹⁸ Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk*. Available from: <https://www.ethics.org/resources/free-toolkit/reducing-risk/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

6.7.5 Re-evaluate and revise as needed.

Situations and needs will change. You need to know what is working, what isn't, what new vulnerabilities have emerged, what progress you've made and where there's work yet to be done. Be disciplined about regularly revisiting the state of ethics and compliance in your organization. Risk assessments, follow-up surveys and periodic or ongoing focus groups will allow you to keep your program relevant and minimize risk¹¹⁹ (Ethics Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/reducing-risk/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

6.7.6 “Hiring and appointment of Ethics Ambassadors.

What are ethics ambassadors? Ethics ambassadors are employees selected to formally assist senior management in promoting and embedding the ethics policies, codes of conduct, business principles, statements of values or other similar policies of their organisations. In this Guide we use the term ‘ethics policy’ to represent all similar initiatives. The post of ethics ambassador may be full-time or may be taken on in addition to an employee’s day-to-day job. Ethics ambassadors will normally be positioned throughout the company; across business units, geographical locations, and the hierarchy of an organisation and may comprise an informal ‘network’ of diverse employees with similar responsibilities. In practice ethics ambassadors have a range of different job titles depending on the organisation and the scope of their responsibilities within it. Examples include:

- Ethics Champion
- Ethics Advisor
- Ethics Point of Contact
- Ethics Coordinator
- Ethics Officer
- Ethics and Compliance Focal Point

¹¹⁹ Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk*. Available from: <https://www.ethics.org/resources/free-toolkit/reducing-risk/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

- Compliance and Ethics Leader
- Ethics Liaison
- Business Compliance Representative
- Business Conduct Officer
- Compliance and Ethics Ambassadors
- Operating Company Compliance Officer
- Ethics Star”¹²⁰¹²¹ (Institute of Business Ethics, Steinholtz, R. and Irwin, J., 2010, <https://www.ibe.org.uk>). “Depending on the company structure, they will have either a solid or dotted reporting line to the head of whichever department is responsible for ethics and/or compliance” (Institute of Business Ethics, Steinholtz, R. and Irwin, J., 2010, <https://www.ibe.org.uk>). The two examples of organizations with ethical & compliance standards will be covered in the following section.

6.8 Two examples of organizations with ethical & compliance standards

The global mobility of people travelling to different parts of the world for various reasons keeps increasing on a yearly basis. It has become the responsibility of global manufacturers to ensure that they operate in an ethical and transparent manner by setting *Ethics and Compliance Standards* that must be adhered to by their directors, managers, employees and other stakeholders on a day-to-day basis. Two examples of leading aircraft manufacturers with ethics and compliance standards in their organizations that guide their directors, managers, employees and other stakeholders on a regular basis are depicted in Figure 6.2 below.

¹²⁰ Steinholtz, R.N. and Irwin, J. (2010) *GOOD PRACTICE GUIDE: Ethics Ambassadors*. London: Institute of Business Ethics, p4-10.

¹²¹ Institute of Business Ethics, Steinholtz, R. and Irwin, J. (2010) *Ethical Ambassadors*. Available from: https://www.ibe.org.uk/userassets/pubsummaries/ea_gpg_exec_summary.pdf

Figure 6.2 Examples of two leading aircraft manufacturers with ethics & compliance standards



Source: Modified: (Airbus SE, 2019, www.airbus.com; Boeing Inc., 2019, <https://www.boeing.com/>).

6.8.1 Airbus SE

“Ethics and Compliance: How We Live Our Principles. Leading by example - The Airbus Ethics and Compliance Programme seeks to ensure that the company's business practices conform to applicable laws, regulations and ethical business principles, as well as developing a culture of integrity. *Our commitment.* ¹²²Over the years, Airbus has earned the trust of passengers, customers, operators and other stakeholders through the quality and safety of our products. To fully serve our communities and thrive in the future, our commitment to business integrity must be just as robust – this means conducting our business ethically and based on [Airbus Values](#), and in compliance with all laws and regulations. Our goal is to be known as a company with ‘integrity inside’: integrity in its people, partners and suppliers. As part of this commitment, Airbus supports the principles of the UN Global Compact and [IFBEC's](#) Global Principles of Business Ethics which set a benchmark for high

¹²² Airbus SE (2019) *Ethics and Compliance*. Available from: <https://www.airbus.com/company/ethics-compliance.html>

ethical standards globally. Airbus is also committed to the [FX Global Code](#), a joint initiative between major central banks and private sectors participants to enhance integrity of the foreign exchange markets. *Join me in focusing on what really matters: preserving our integrity and embracing our values for the purpose of serving the best interests of our great company Airbus - Guillaume Faury – CEO Airbus. Our standards.* The foundation for integrity at Airbus is our Code of Conduct (CoC). The Code is intended to guide daily behaviour and help employees resolve the most common ethical and compliance issues that they may encounter. The Code of Conduct applies to all employees, officers and directors of Airbus as well as entities that we control. Third party stakeholders whom we engage are also expected to adhere to Airbus Code of Conduct in the course of performing work on our behalf. *Programme and risk. Our programme* - While our Code of Conduct provides a useful starting point, they cannot answer all questions, nor are they sufficient to ensure that Airbus complies with the myriad legal requirements applicable to its business. Because of this, we have worked over the past several years to develop an **Ethics and Compliance programme** that is structured around four key risk areas: [Business Ethics/Anti-Corruption Compliance](#), [Export Compliance](#), [Data Protection Compliance](#) and [Procurement Compliance](#). Each of these areas are in turn supported by dedicated compliance policies and a team responsible for their implementation, together with the identification and proposal of new measures to adapt to a constantly evolving regulatory landscape. **Improving our programme** is a constant and ongoing process, not only in the area of Business Ethics/Anti-Corruption but across the ethics and compliance spectrum more generally. ¹²³*Organisation and culture: Our organization* - Our Ethics and Compliance organisation is part of the Legal Department under the ultimate responsibility of the Airbus' General Counsel. The aim is to provide strong governance throughout the company with the global presence of qualified compliance officers who ensure the compliance programme is implemented in the different functional and operational areas. They do this in close cooperation with our employees and management, who are expected to lead with integrity by example and take responsibility for compliance within their scope of activity. *Our awareness and training* - Whilst the Tone at the Top and leading by example are critical for the success of the Ethics & Compliance Programme, it is equally important to

¹²³ Airbus SE (2019) *Ethics and Compliance*. Available from: <https://www.airbus.com/company/ethics-compliance.html>

ensure that employees and Directors receive the right level of training and awareness around the key Directives. Airbus aims to educate its employees about the standards of conduct that apply to their jobs and the potential consequences, including on anti-corruption. All Airbus employees receive Ethics & Compliance training including on Anti-Corruption. Additionally, depending on the functions, the country and the level of risk implied by their role, some employees may be selected to attend enhanced Anti-Corruption trainings. Such trainings can be both delivered via the e-learning platform or during face to face training sessions. *Speak Up* - Airbus is committed to maintaining a Speak Up culture by promoting an open and trusting dialogue with employees at all levels. All employees are encouraged to express their views, defend their opinions, and point out unacceptable behaviour—especially behaviour that violates our Code of Conduct. Employees can raise concerns to their line manager, their Human Resources Business Partner, to a Legal & Compliance representative, or through the Airbus “OpenLine” (www.airbusopenline.com)¹²⁴ (Airbus SE, 2019, <https://www.airbus.com/company/ethics-compliance.html>).

6.8.2 Boeing Inc.

¹²⁵ “*Overview*: At Boeing, ethical business conduct isn’t just a part of what we do—it’s at the very core of how we operate. Doing the right thing for our employees, customers, stakeholders and communities has helped us earn trust and build partnerships that will drive us forward in our next century, and beyond. Each year, Boeing’s chairman hosts a live, company-wide broadcast event with employees across the globe to underscore the importance of intentional and ethical decision-making in everything we do. While each employee is accountable for upholding the [Boeing Code of Conduct](#), ensuring that our [enduring values](#) remain foundational to our work, and following all applicable laws, regulations and company policies, Boeing advances its unified approach to ethics and compliance through the integration of key functions: Corporate Audit, Ethics and Business Conduct, Global Trade Controls, Security & Fire Protection, and other

¹²⁴ Airbus SE (2019) *Ethic and Compliance*. Available from: <https://www.airbus.com/company/ethics-compliance.html>

¹²⁵ Boeing Inc., *Ethics and Compliance*, [Website], 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>, (accessed 12 October 2019).

enterprise-wide services. These functions and operating groups constitute the Boeing [Office of Internal Governance and Administration](#) and represent approximately 1,700 employees worldwide. This office reports significant investigations, audit findings, or escapes to the Board of Directors and will disclose criminal conduct to appropriate regulators with the guidance and assistance of the Law Department. This structure creates a sustainable advantage for Boeing by enabling compliant company performance across all geographic locations—while also building on our legacy of integrity, transparency and an unwavering commitment to fair and ethical business practices. ¹²⁶*Leadership Matters: Ethical Business Conduct Guidelines*. Leadership Matters is a companywide initiative that focuses on enabling a culture of openness and accountability in order to sustain an ethical and compliant work environment and enhance business performance. The intent is to embed ethical decision-making into all aspects of business, and equip managers and employees with tools to confidently address ethics-related matters, and to raise questions without fear of retaliation. Boeing asks teammates around the world to provide answers to questions in a formal, confidential survey about their perceptions of the company, its direction, the quality of our managers, our shared values and ethics along with other important dimensions of corporate culture. Boeing specifically asks about employees' perceptions of retaliation for reporting wrongdoing and of their management's support of ethical decision-making to ensure a culture of openness and accountability. Focused surveys are also deployed to collect further details about employees' perceptions of the Boeing culture. Managers use the feedback to initiate conversations with their team, identify actions to improve the employee experience and fully engage the team to contribute their best every day. Company leaders take the results and supporting managers seriously, providing them the needed resources to change the company for the better. The ethics and compliance groups provide a range of tools and resources to help managers and employees discuss ethics issues and regularly practice ethical decision-making skills. The tools and resources include: • **Ethical Business Conduct Guidelines** . Please note: This document for Boeing employees is being provided for reference to stakeholders outside the company. However, it contains links to material accessible only from inside the Boeing computing network. • Workplace case studies based on actual events • Staff

¹²⁶ Boeing Inc., *Ethics and Compliance*, [Website], 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>, (accessed 12 October 2019).

meeting materials that drive openness, trust, and personal accountability, and encourage speaking up without fear of retaliation. Additional topics are provided to help employees respond ethically when faced with normal business pressures, such as workforce shifts, and cost or schedule constraints. • Training refreshers on company procedures and policies”¹²⁷ (Boeing Inc., 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>).

“Code of Conduct - The Boeing [Code of Conduct](#) establishes behavioral expectations for Boeing employees at all levels of the company – wherever we are in the world. Along with Boeing’s enduring values, the code serves as the foundation for our workplace culture and provides the basis for the way we conduct business. While we are committed to performing all business in accordance with relevant laws and regulations and provide our employees with a robust set of internal policies, we believe that it is our commitment to operating with integrity that ensures our long-term business success. Every year from January to February, managers and employees meet to review and discuss Boeing expectations to keep promises, hold ourselves and each other accountable, and model ethical behavior. As part of these discussions, all employees reaffirm their personal commitment by annually signing the code of conduct and acknowledging their responsibilities to ask questions, seek guidance and to raise concerns about potential violations. The code is available in English and these languages. [Compliance](#) - Complying with external regulations and our own strong internal policies and procedures is not only the right thing to do, it is vital to the ongoing success of our company. To ensure we maintain effectiveness and continually enhance in this area, compliance monitoring and assessments are built into all levels of the business. Senior leaders of every Boeing business and function are responsible for identifying, analyzing, raising and addressing key compliance issues. They do this through the [Compliance Risk Management Board \(CRMB\)](#), which is chaired by the Senior Vice President of the Office of Internal Governance and Administration, as well as involvement from other senior executive leaders. The CRMB's oversight enables the company to identify risk areas and ensure consistent actions across the company in order to remain compliant. It also facilitates cross-enterprise discussion to support proactive management of emergent risks. Boeing uses

¹²⁷ Boeing Inc., *Ethics and Compliance*, [Website], 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>, (accessed 12 October 2019).

ongoing monitoring to track and assess effectiveness of internal controls and processes in meeting compliance goals. Each year, all compliance training is reviewed for relevance and effectiveness, based on subject matter experts' feedback and effectiveness surveys from training completions. It is also refreshed as needed to ensure content is current and meaningful. From the company's most senior leadership to its newest workers, Boeing employees are committed to keeping compliance a core element of everything we do. ¹²⁸**Speaking Up** - Speaking up is a cornerstone for building an open and accountable workplace culture. At Boeing, we believe that creating an environment where employees are comfortable raising issues and concerns without fear of retaliation enables openness which can lead to improved business performance and inspire greater innovation. Boeing maintains policies and procedures to encourage employees to report concerns and seek guidance, using confidential and, when preferred, anonymous methods, including contacting local ethics advisors, using toll-free phone numbers and accessing web-based portals. **Anti-Corruption Program** - Boeing strictly forbids bribery and corruption of any kind. It is imperative that we compete on the merits alone. Integrity is a core company value and in support of it, Boeing publishes an internal policy inclusive of anti-corruption and bribery requirements and expectations applicable to employees, Board of Directors, and other stakeholders. Boeing also provides employees and other stakeholders' detailed procedures to ensure compliance with the U.S. Foreign Corrupt Practices Act and other global anti-corruption laws and regulations; requires annual training related to ethics and compliance; and provides guidance and instructions on various reporting mechanisms. This guidance is clear that we must never sacrifice our ethical principles to win or keep business—that no business is worth it. **Competing Globally with Honesty, Integrity and Compliance** - Boeing's anti-corruption program is organized into nine areas, and reflects the company's commitment to competing globally with honesty, integrity and in full compliance with all applicable laws and regulations. Detailed policies and procedures govern each area and demonstrate the company's zero tolerance for corruption, applicable to employees at all levels and in every location where we operate. We work with our partners, including through Boeing-appointed board members, to ensure that the joint ventures in which we participate adopt similar policies and procedures to govern their

¹²⁸ Boeing Inc., *Ethics and Compliance*, [Website], 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>, (accessed 12 October 2019).

respective operation. Program risk is assessed throughout the year, and results are shared at the company's executive council and board levels. Assessment results are used to make improvements to further strengthen the program and sustain effectiveness. **Industrial Participation** - Boeing enters into various industrial participation agreements with certain customers outside of the U.S., primarily as a result of country laws and regulations, to provide economic flow back or the transfer of technology or skills to their businesses or government agencies as the result of their procurement from us. These commitments may be satisfied by our local operations there, placement of direct work or vendor orders for supplies, opportunities to bid on supply contracts, transfer of technology or other forms of assistance as prescribed by country laws and guidelines. In certain cases, our commitments may be satisfied through other parties (such as our vendors) who purchase supplies from our non-U.S. customers. To be eligible for such a purchase order commitment from us, a non-U.S. supplier must have sufficient capability to meet our requirements and must be competitive in cost, quality and schedule. Even in these cases, Boeing retains the responsibility of the obligation. Boeing has dedicated departments focused exclusively on the management and execution of industrial participation commitments. Boeing has specific processes and procedures that layout responsibilities to address industrial participation activities and receive support from other functions to complete due diligence, comply with export restrictions and prevent corruption”¹²⁹ (Boeing Inc., 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>). The glossary of terms in business ethics will be covered in the following section.

¹²⁹ Boeing Inc., *Ethics and Compliance*, [Website], 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>, (accessed 12 October 2019).

6.9 Glossary of terms in business ethics

Board of directors, managers, employees and other stakeholders of the organization must consistently be knowledgeable about the different definitions of terms that are regularly used in Business Ethics today. ¹³⁰Some of the popular glossary of terms were identified in the Ethics & Compliance Initiative (2019) *Home/Resources/Free Ethics & Compliance Toolkit/Ethics and Compliance Glossary*. ¹³¹A few of the selected glossary of terms are depicted in Table 6.2 below.

Table 6.2 Business ethics glossary of terms

Definitions	Definitions
“ <i>Credo</i> - Fundamental beliefs (or a set of beliefs) or guiding principles” (Ethics & Compliance Initiative, 2019).	“ <i>Integrity</i> - Consistency of values and actions that breeds trust and confidence in stakeholders. When stated and operative values are in congruence” (Ethics & Compliance Initiative, 2019).
“ <i>Work Ethic</i> - Dedication and commitment to fulfilling one’s responsibilities and successfully completing assignments” (Ethics & Compliance Initiative, 2019).	“ <i>Ethical Dilemmas</i> - Challenging situations that require or involve competing sets of values” (Ethics & Compliance Initiative, 2019).

¹³⁰ Ethics & Compliance Initiative (2019) *Ethics and Compliance Glossary*: [Home/Resources/Free Ethics & Compliance Toolkit/Ethics and Compliance Glossary](https://www.ethics.org/resources/free-compliance-toolkit/toolkit-glossary/). Available from: <https://www.ethics.org/resources/free-toolkit/toolkit-glossary/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

¹³¹ Ethics & Compliance Initiative (2019) *Definition Values*. Available from: <https://www.ethics.org/resources/free-toolkit/definition-values/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

<p>“<i>Promise-keeping</i> - Keeping your word that that you will certainly do something” (Ethics & Compliance Initiative, 2019).</p>	<p>“<i>Ethical Congruence</i> - A situation where one’s decision is consistent with, aligns with, the applicable set(s) of values” (Ethics & Compliance Initiative, 2019).</p>
<p>“<i>Obedience</i> - Compliance with that which is required; adherence to the requests of legitimate authority” (Ethics & Compliance Initiative, 2019).</p>	<p>“<i>Corruption</i> - The abuse of public power for private benefit. Perversion or destruction of integrity in the discharge of public duties by bribery or favor or the use or existence of corrupt practices, especially in a state or public corporation” (Ethics & Compliance Initiative, 2019).</p>
<p>“<i>Ethics culture</i> includes ethical leadership (tone at the top); supervisor reinforcement of ethical behavior; and peer commitment to support one another in doing right” (Ethics & Compliance Initiative, 2019).</p>	<p>“<i>Code Provisions</i> - The specific standards of behavior and performance expectations that your organization chooses to highlight and address in your code” (Ethics & Compliance Initiative, 2019).</p>

Source: Modified: (Ethics & Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/toolkit-glossary/>; Ethics & Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/definition-values/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

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

6.10 Conclusion

In our society nowadays ethics helps to guide people or entities on what must be considered to be moral or immoral. Ethics is a broad field and one of its sub-elements is business ethics. Trustworthiness and respect are some of the key parts of business ethics. Organizations that create and adopt codes of ethics often create working environments where their board of

directors, managers and employees adhere to rules and standards on a day-to-day basis. Ethics and compliance is now an important topic in organizations across the world due to the fact that the performance of any organization in this modern-day business environment is now determined by the ethical practices of the organization. It can therefore be concluded that leadership and culture play a significant role in ensuring that an organization adopts ethical practices.

6.11 Review questions

- (1) Define the following terms: ethics, code of ethics, code of conduct and compliance? Outline the key components of business ethics?

- (2) Explain in-depth how the Ethics Department collaborates with the HR department? Discuss how ethical behavior of people in the organization can be incentivized?

- (3) What is the purpose of a Code of Conduct?

- (4) Identify the various ways to reduce ethics & compliance risk? Describe two examples of organizations with ethical & compliance standards of your choice?

- (5) Discuss all the terms identified in the glossary of terms in business ethics highlighted in this chapter?

Chapter 7: Effective business leadership

After reading this chapter you should be able to:

- Define the term: a leader and outline the objectives of leadership in an organization. Outline the benefits of effective business leadership.
- List the qualities of a good leader. Outline the characteristics associated with leaders who uphold good corporate governance practices.
- Identify the characteristics of an ethical leader. Explain why ethics and leadership are related.
- What is exemplary leadership. Discuss examples of leading global companies with great leaders.
- Explain what is servant leadership and give relevant examples.

7.1 Introduction

In general the duties of leadership and management greatly differ in an organization. The issue that has made leadership a subject of interest for many academics or researchers is that today in this highly globalized economy some of the organizations are still either overled or underled. In general highly competent-to-great business leaders (*such as CEOs, COOs, Chairpersons and so on*) that are found in most organizations are usually a result of effective succession planning programs within the organization while a few of them are a result of family inheritance. A good example of an organization that has a good succession planning history is the Massachusetts, United States of America-based ‘General Electric’ (*GE*). For instance, when the Massachusetts, United States of America-based ‘General Electric’ (*GE*) former CEO Jeffrey Immelt one of the great and visionary leaders that came from within General Electric when he replaced the ‘legendary, iconic and outstanding’ former CEO John. F. Welch (*who used the name ‘Jack’ Welch*) when he retired in 2001¹³² (General Electric, 2018).¹³³ General Electric (*GE*) is a

¹³² General Electric (2018) *GE History - Past Leaders*. Available from: www.ge.com/about-us/leadership/past-leaders

¹³³ General Electric (2015) *Thomas Edison and The History of Electricity*. Available from: <http://www.ge.com/about-us/history/thomas-edison>

multinational conglomerate corporate which was founded in 1892 in Schenectady, New York by Thomas Edison (inventor of the first electrical bulb), Charles Coffin, Elihu Thomson and Edwin Houston (General Electric, 2015). GE operates in the following market segments: aviation, healthcare, financial services, analytics and software development, power and so on¹³⁴ (General Electric, 2015). ¹³⁵The conglomerate GE is well-known globally for its remarkable leadership succession planning and outstanding visionary leaders who have successfully led the company through various change interventions that have managed to make the company enjoy the success it has accomplished today¹³⁶ (General Electric, 2018). There are numerous definitions of leadership and these will be discussed in the following section.

7.2 Definition of terms

Numerous publications such as journals, newspapers, magazines, websites and textbooks have highlighted the definition of leadership over the past number of years. In general the terms ‘leader’ and leadership’ are often used when discussing any topic that is related to leadership. A *leader* is an individual with an inner ability to unite or persuade others to walk towards a certain path through inspiring their morale and gaining their trust (Rudolph. Patrick. T. Muteswa, 2019). The objectives of leadership will be covered in the next section.

7.3 Objectives of leadership

Effective leadership assists an organization to achieve its goals and objectives. The objectives of leadership are vital as they form the basis of linking and attaining an organizational purpose. There are several leadership objectives and these include the following:

- To identify talent and nurture it through well designed career development programs,

¹³⁴ General Electric (2015) *Thomas Edison and The History of Electricity*. Available from:

<http://www.ge.com/about-us/history/thomas-edison>

¹³⁵ General Electric (2018) *GE History - Past Leaders*. Available from: www.ge.com/about-us/leadership/past-leaders

¹³⁶ General Electric (2018) *From Inspiration to Industry*. Available from: <http://www.ge.com/about-us/history/1878-1904>

- To highlight the mission of the organization through informing all its internal and external stakeholders about its intended direction and operational activities,
- To manage organizational politics and establish good relationships to attain both professional and individual goals and objectives,
- To receive and deliver feedback in good faith and appreciation,
- To establish effective training and development programs that consistently help to increase employees' knowledge,
- To establish and maintain a team spirit in the organization so that all the departments in the organization coordinate their work activities to achieve the goals and objectives of the organization. The following section will cover the benefits of effective business leadership.

7.4 Benefits of effective business leadership

Business leaders are the drivers of success in an organization thereby making leadership the most influential and critical element of success. Effective leaders are naturally highly attentive to their immediate and future environment as this attribute helps them to foresee and or consistently look for new opportunities they can fully maximize on. Organizations that employ effective leaders enjoy numerous benefits and these are depicted in Figure 7.1 below.

Figure 7.1 Benefits of effective leaders in an organization



As previously depicted by Figure 7.1 the benefits of effective leaders in an organization are many and these include the following:

7.4.1 They improve the performance of the organization

An effective business leader ensures that the organization’s operational activities are in direct alignment with its mission statement and all the functional departments are working together to achieve a common goal. When all departments in an organization are working together it becomes easy to implement change that helps the organization to innovate its products, services, systems and processes. In general innovation helps the organization to perform better and gain or maintain a competitive advantage in the marketplace. Effective leaders focus on performance improvement in the organization and this is one advantage enjoyed by organizations that employ them.

7.4.2 They help to boost employee morale

An effective leader is an individual who is well respected, admired, transparent and with an unquestionable strong work ethic. The fact that employees are being led by effective leaders means that everything about the organization is done in a transparent and honest manner while on the other hand everyone in the organization is consistently kept up-to-date with the latest

information about the various topics happening in the organization. The morale of employees is often boosted by transparency and honest communications from their business leaders. An effective leader is naturally followed by the people they lead and their followers generally want to identify with them as a result of their charisma, strong work ethics, results-orientated approach and transparency at the workplace.

7.4.3 They help to ensure that proper communication channels are established

The most critical ingredient to effective leadership in any type or size of organization is communication. Organizations with good-to-great leaders have well established communication channels that they use to receive suggestions and grievances of employees on a daily basis and they also use these channels to provide timely feedback to employees or management on suggested ideas. An effective leader often ensures that an organization adopts the latest forms of technology to boost the free flow of communication from the top to the bottom structures of the organizational hierarchy structures. Some of the most successful organizations in the world with good-to-great leaders have adopted communication channels that include: social media platforms, emails, intranets, notice boards, podcasts, video recording, mobile phone texting (*short-message-services also known as SMS*), an official company website, fax, magazines, journals, newsletters or internal organizational news bulletins papers and so on. Effective leaders strongly believe that the people they lead have the right to know about everything taking place in the organization and they ensure that they provide them with all the available information on a regular basis to maintain transparency and accountability standards.

7.4.4 They help to ensure that a balanced diversity & inclusion policy is implemented at the workplace

The new buzz word in the field of equality and non-discrimination at the workplace is the term ‘diversity and inclusion’ and in the past decades this was not a popular topic. Today diversity at the workplace or boardroom is inevitable due to the consistently changing demographic patterns of consumers in the global marketplace. In addition diversity has also become inevitable as a result of the high migration patterns of people across the world for various reasons. “*Diversity* is the range of human differences, including but not limited to race, ethnicity, gender, gender

identity, sexual orientation, age, social class, physical ability or attributes, religious or ethical values system, national origin, and political beliefs. *Inclusion* is involvement and empowerment, where the inherent worth and dignity of all people are recognized¹³⁷ (Ferris State University, 2019, <https://www.ferris.edu/>). An effective leader helps to ensure that the organization and its boardroom develops policies that help to avoid the discrimination of employees and job candidates based on gender, race, disability and to provide equal opportunity of employment¹³⁸ (Laubscher, 2001:18).

7.4.5 They enhance the corporate and employer brand status of the organization

Nowadays global markets or stock exchange indexes are strongly influenced by the activities of business leaders in organizations including the positioning of products/services in the marketplace. High quality leadership helps the organization to perform better in the global markets or stock exchange ratings which ultimately boost the share value of the organization. Thus effective leadership is a key determinant of success in an organization. Notably organizations that employ effective business leaders often adapt modern day talent management approaches of creating a conducive workplace where everyone wants to work and this helps the organization to attain the employer of choice status amongst the highly skilled or talented job seekers in the labor market. Organizations that offer workplaces where everyone wants to work tend to succeed in gaining powerful employer brand statuses which ultimately leads to an improved corporate image in the market. Therefore, an effective leader automatically becomes the brand ambassador of the organization in the marketplace and this naturally helps to boost the corporate image of the organization. The following section will cover the various qualities of a good leader.

¹³⁷ Ferris State University (2019) *Diversity and Inclusion Definitions*. Available from: <https://www.ferris.edu/HTMLS/administration/president/DiversityOffice/Definitions.htm>

¹³⁸ Laubscher, C (2001) Managing Diversity. *People Dynamics*, p16-18.

7.5 Qualities of a good leader

Several traits have been discovered by academics, theorists and psychologists as commonly found in good or great leaders. One of the common traits of a great leader is that they consistently make an effort to inspire people and they do everything they can to avoid manipulating people. There are several business leaders located in different parts of the world with good business leadership qualities (Muteswa, 2016). Some of the qualities of a good leader are depicted in Figure 7.2 below.

Figure 7.2 The nine qualities of a good leader



Source: Modified: (Inc.com, 2015, www.inc.com).

7.5.1 Assertiveness

Good leaders are assertive meaning that they are confident, good communicators, calm, commit towards achieving something that they believe is right and can benefit others whilst at the same time they are strong advocates of ethical behaviour. During a crisis in an organization an assertive leader does not make irrational and miscalculated decisions and show weakness such as panicking but strategically guides his or her followers confidently through making good judgements or strategic thinking.

7.5.2 Toughness and inspirational

A good leader is resilient and never gives up at anything despite their situation. Good leaders tend to be fearless of achieving their goals or objectives in direct confrontation with their problems. The toughness of a leader is seen when he or she has to make tough decisions on their own during difficult times and greatly inspires the people they lead to genuinely believe in the importance and purpose of the organization¹³⁹ (Meitner, 2015 cited in Inc.com, 2015, www.inc.com).

7.5.3 Communicate the vision and values

Good leaders clarify to employees about the desired destiny of the organizational goals and objectives which include its vision and therefore ensure that the guiding principles of the organization are maintained. “A great leader captures the minds and hearts of his or her people by painting a very vivid and compelling vision for the future”¹⁴⁰ (Friedman, 2015 cited in Inc.com, 2015, www.inc.com). A good leader is resilient and never gives up at anything despite their situation. Good leaders tend to be fearless of achieving their goals or objectives in direct confrontation with their problems (Meitner, 2015 cited in Inc.com, 2015, www.inc.com).

7.5.4 Establish the right culture in the organization

One of the common qualities of a great leader is to establish an organizational culture that is centred on moral values, upliftment, harmonious working relationships amongst employees, high work ethics, high creativity and entrepreneurial thinking¹⁴¹ (Wilson, 2015 cited in Inc.com, 2015, www.inc.com). “The mark of a great leader is someone who takes time to focus on creating a company culture that inspires internal entrepreneurial thinking” (Wilson, 2015 cited in Inc.com,

¹³⁹ Meitner, S. (2015) cited in Inc.com (2015) *Be Fearless and Inspirational*. Available from: <http://www.inc.com/entrepreneurs-organization/9-characteristics-of-a-great-leader.html>

¹⁴⁰ Friedman, N. cited in Inc.com (2015) *Use Vision and Values*. Available from: <http://www.inc.com/entrepreneurs-organization/9-characteristics-of-a-great-leader.html>

¹⁴¹ Wilson, S. (2015) cited in Inc.com (2015) *Create the Right Culture*. Available from: <http://www.inc.com/entrepreneurs-organization/9-characteristics-of-a-great-leader.html>

2015, www.inc.com). A typical good example of two iconic business leaders is Mr. Ratan Tata, Chairman Emeritus of Tata Sons and Mr. Natarajan Chandrasekaran the current Chairman of the board of Tata Sons (Tata Sons Private Limited, 2019, [https://www.tata.com/management-team#//](https://www.tata.com/management-team#/)).¹⁴²“*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 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>). “*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

¹⁴² Tata Sons Private Limited (2019) *Ratan N Tata Chairman Emeritus*. Available from:

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

2017”¹⁴³ (Tata Sons Private Limited, 2019, <https://www.tata.com/management-team#/management-team/n-chandrasekaran>).

7.5.5 Honesty

Honesty is one trait that is found in every good-to-great leader. A good leader maintains a fair and open door policy with all the employees and they strongly promote adherence to the organization’s code of conduct.

7.5.6 Humility

One of the most common personality trait that is shared by most of the greatest leaders in the world is humility. In general good leaders tend to listen to their employees’ suggestions or grievances and they tirelessly make an effort to solve some of their employees’ grievances on time in order to maintain their morale and support. A good indicator of identifying a great leader is that they show humility by taking the blame for mistakes made under their leadership guidance while during times of celebrating achievements they often share the credit with their followers. Humble leaders tend to ensure that they apologize for every mistake made and they go the extra mile in helping their followers to develop their skills and performance so that they reach the required work performance standards.

7.5.7 Learn from failure and bad experiences

Good leaders always make sure that they learn from their past mistakes and they often view their mistakes as a way to do things better next time. “A good leader isn’t afraid of failure or admitting defeat. A great one takes failure, pushes through it, and demonstrates to their team how to learn from it”¹⁴⁴ (Paul, 2015, cited in Inc.com, 2015, www.inc.com). Effective leaders during difficult times they always learn something out of that bad experience (Paul, 2015 cited in Inc.com, 2015, www.inc.com).

¹⁴³ Tata Sons Private Limited (2019) *N. Chandrasekaran: Executive Chairman*. Available from: <https://www.tata.com/management-team#/management-team/n-chandrasekaran>

¹⁴⁴ Paul, C. (2015) cited in Inc.com (2015) *Learn From Failure*. Available from: <http://www.inc.com/entrepreneurs-organization/9-characteristics-of-a-great-leader.html>

7.5.8 Commitment

Generally true good-to-great leaders often dedicate their skills and expertise towards attaining the goals of the organization. Therefore, committed leaders often have a positive attitude towards their organization, people, products or services and so on.

7.5.9 Ability to identify and attract talent

Therefore, a good leader generally has the ability to identify and develop talent that can be used by the organization to achieve its set goals and objectives. “A leader has the ability to attract other leaders to join their team. When a new direction is needed, we have the ability to collaborate together to define the road ahead”¹⁴⁵ (Martin, 2015 cited in Inc.com, 2015, www.inc.com). Therefore, good leadership can be felt inside the organization where every employee has an equal chance of growing to reach their maximum level best while simultaneously the organization achieves high employee retention levels. In the next section in-depth discussions will be conducted to clearly point-out that trust is one of the key characteristics that is associated with effective leaders who adhere to good governance practices.

7.6 Trust is one of the key characteristics associated with leaders who uphold good corporate governance practices

The various traits that are associated with leaders who tend to uphold good corporate governance practices are many. Traits of leadership in people can either be acquired through learning, training and or via inheritance.

7.6.1 Trust – is generally a common characteristic that is possessed by business leaders who uphold good corporate governance standards. One of the most critical ingredients of attaining good corporate governance in any organization is the ability to gain the trust of both internal and external stakeholders through transparent and ethical operational activities. Therefore, the leaders (*board of directors*) of the organization must first ensure that they have an in-depth understanding of the meaning of ‘trust’ and afterwards they must also ensure that they earn the

¹⁴⁵ Martin, J. (2015) cited in Inc.com (2015) *Attract Talent*. Available from: <http://www.inc.com/entrepreneurs-organization/9-characteristics-of-a-great-leader.html>

trust of: (1) the people they lead (*employees and executive management*), (2) the people they serve (*for instance customers or the community*) and (3) shareholders (*in the case of profit-making organizations*) or members (*in the case of nonprofit making organizations*) in order to successfully attain good corporate governance. ¹⁴⁶“Trust is a central part of all human relationships, including romantic partnerships, family life, business operations, [politics](#), and medical practices. Behaviors and verbal expressions are certainly evidence for trust, for example when someone treats you well and says nice things to you, but these behaviors are merely evidence for the internal mental state of trust that causes them, not the trust itself. Trusting people may involve estimations of probabilities of how they will behave, but people usually trust others without any understanding of probability or any precise predictions about their behaviors” (Thagard, 2018, [www.psychologytoday.com](#)). “*Trust* is an emotional brain state, not just an expectation of behavior. But *what is trust?* Here are some possibilities:

- *Trust* is a set of behaviors such as acting in ways that depend on another.
- *Trust* is a [belief](#) in a probability that a person will behave in certain ways.
- *Trust* is an abstract mental attitude towards a proposition that someone is dependable” (Thagard, 2018, [www.psychologytoday.com](#)). The various characteristics associated with an ethical leader will be highlighted in the following section.

7.7 Characteristics of an ethical leader

¹⁴⁷“Good leaders display certain personality traits that are common across cultures and history; those of intelligence and imagination to create a compelling vision of the future, and bring those who can deliver it with them. A good leader must also be trustworthy and display unshakeable integrity, be action-oriented, resilient in the face of setbacks while treating people with respect,

¹⁴⁶ Thagard, P. (2018) *What is Trust*. Available from: <https://www.psychologytoday.com/us/blog/hot-thought/201810/what-is-trust> “Copyright Sussex Publishers, LLC. Except as otherwise expressly permitted under copyright law, no copying, redistribution, retransmission, publication or commercial exploitation of downloaded material will be permitted without the express written permission of Sussex Publishers, LLC.”

¹⁴⁷ Tuffley, D. and Antonio, A. (2015) *Five Traits of An Ethical Leader*. Available from: <http://theconversation.com/five-traits-of-an-ethical-leader-51181>

not as mere units of production. They have rid themselves of delusion and are brutally honest with themselves, know when to take risks and when to play it safe. Leaders are courageous, defy group-think and accept the backlash against their unorthodox practices” (Tuffley and Antonio, 2015, <http://theconversation.com>). The five traits of ethical leaders will be depicted in Figure 7.3 below.

Figure 7.3 Five traits of ethical leaders



Source: Modified: (Tuffley and Antonio, 2015, <http://theconversation.com>).

¹⁴⁸According to Tuffley and Antonio (2015):

¹⁴⁸ Tuffley, D. and Antonio, A. (2015) *Five Traits of An Ethical Leader*. Available from: <http://theconversation.com/five-traits-of-an-ethical-leader-51181>

7.7.1 The ability to set a good example. The defining feature of the ethical leader is that in addition to the foundational qualities mentioned above, they are seen to act from their own well developed set of ethical principles, setting a consistently good example for others to follow. The steady force of their attitude over time trickles down and becomes embedded in the culture. They have created a moral matrix that people internalise and operate from day to day.

7.7.2 Selflessness. Ethical leaders are strong on selfless service in the interests of the greater good.

7.7.3 Their door is always open. The whole topic of ethics is open for discussion, and everyone is encouraged to become part of the ongoing conversation. The moral DNA of the organisation is a work in progress; a living entity that evolves, becomes stronger. It is not enshrined in a framed mission statement, then forgotten about.

7.7.4 They're not afraid to be challenged. Having one's subordinates call you out, disagree with you, challenge your judgement; all of this calls for great understanding and tolerance. Ethical leaders understand that it's part of a culture of continuous improvement. There can be no "*I'm the boss, don't you dare challenge my authority*". It is part of not taking oneself too seriously. Self-deprecating humour is used to good effect. Ethical leaders do not identify too closely with the position they occupy, such that they will be tempted to overstay their welcome. They cultivate successors and know when to step aside, leaving on a high rather than being pushed. New blood rejuvenates; it's often the best strategy for moving with the times.

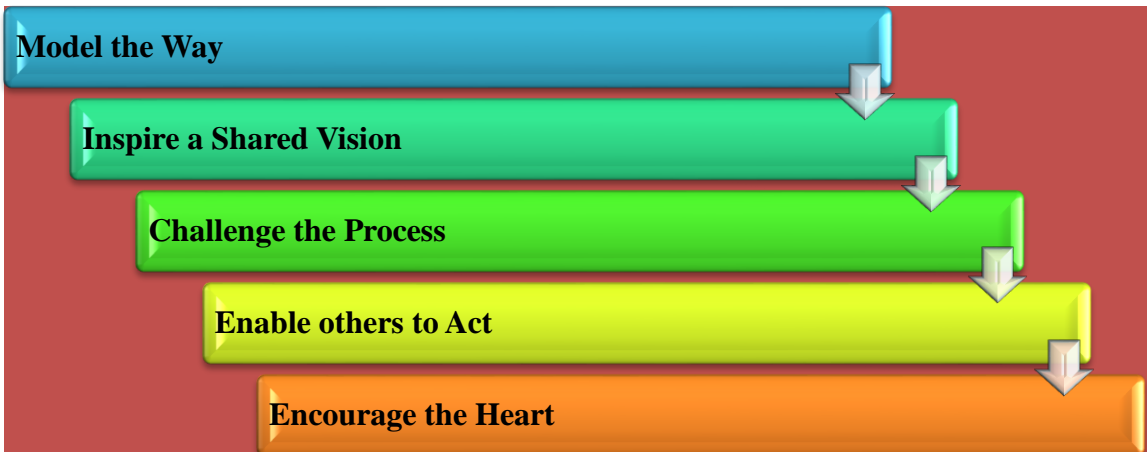
7.7.5 They take responsibility for everything. The ethical leader accepts that they are either directly or indirectly responsible for everything that happens in the organisation. The ethical leader does not resort to the "plausible deniability" defence (Tuffley and Antonio, 2015, <http://theconversation.com>). The following section will cover issues relating to exemplary leadership centered.

7.8 Exemplary leadership

Exemplary leadership is the fuel that drives the ethics and compliance agenda in the boardroom. Therefore today most of the organizations now want leaders who can model the way for their employees to follow by practicing exemplary leadership via upholding ethical behavior, values,

principles and goals of the organization. According to a book by James M. Kouzes and Barry Z. Posner, *The Leadership Challenge, 6th Edition*, published by John Wiley and Sons, Inc. Copyright@ 2017, the *five practices of exemplary leadership* were identified and these are depicted in Figure 7.4 below.

Figure 7.4 Five Practices of Exemplary Leadership by Kouzes & Posner (2017)



Source: Modified (Kouzes and Posner, 2017)

7.8.1 Model the way

As previously depicted in Figure 9.1 *model the way* is concerned with the leader doing things in a way that helps him or her to lead-by-example (*also known as walk-the-talk*). A leader can have great job titles but the only way they can earn respect, value and inspiration to those titles is through their behavior therefore their behavior can win them the respect they deserve or vice versa (Kouzes and Posner, 2017). An exemplary leader always initiates the good behavior of doing things at the workplace in order to set an example and illustrate commitment in what they believe¹⁴⁹ (Kouzes and Posner, 2017).

¹⁴⁹ James M. Kouzes and Barry Z. Posner, *The Leadership Challenge, 6th Edition*. Published by John Wiley and Sons, Inc. Copyright@ 2017

7.8.2 Inspire a shared vision

Therefore, no matter what type of organization or size every organization starts with a dream which helps to outline the future. True leaders *inspire a shared vision* by foreseeing the future through scanning for lucrative opportunities the organization can take advantage of when the time arrives to do so. Leaders use their imagination to foresee the outcomes of opportunities they come across on a day-to-day basis (Kouzes and Posner, 2017). It is practically impossible for a leader to dictate commitment but it can only be attained through inspiring it. Leaders who inspire their people give life to their dreams, goals, desires, growth and even create opportunities for them to become great leaders in the organization (Kouzes and Posner, 2017).

7.8.3 Challenge the process

A great leader looks for opportunities instead of waiting for them to come to him or her and is willing to face or accept any challenge they may face. Challenges can be in the form of a task to introduce a new technological invention, new product or service, regain lost market share or sales, restructuring the organization to make it more efficient, highly profitable and so on. Therefore, all this requires the leader to shift the organization from one point to another thus *challenging the process* (Kouzes and Posner, 2017). Great leaders never stop learning and through continuous learning that is how they successfully challenge the process or overcome any challenge that comes in their way (Kouzes and Posner, 2017)¹⁵⁰.

7.8.4 Enable others to act

Leaders acknowledge that in order for them to accomplish the organization's vision, mission and goals they need to collaborate with others hence they embrace a team spirit culture in the organization (Kouzes and Posner, 2017). Exemplary leaders *enable others to act* through direct engagement with all their followers (*employees, middle and low level managers*) and other stakeholders who have an interest in the organization's vision and mission (Kouzes and Posner, 2017).

¹⁵⁰ James M. Kouzes and Barry Z. Posner, *The Leadership Challenge, 6th Edition*. Published by John Wiley and Sons, Inc. Copyright@ 2017

7.8.5 Encourage the heart

Every journey in an organization's life is full of obstacles and challenges which often makes people exhausted or even think of leaving the organization but good leaders *encourage the heart* to soldier on until the vision or final destination is reached (Kouzes and Posner, 2017). The interrelation between ethics and leadership will be covered in the following section.

7.9 Why ethics and leadership are related

“One characteristic of ethical leadership is to influence others. The ethical leader understands that positive relationships built on respect, openness, and trust are critical to creating an ethical organization environment. The underlying principles of ethical leadership are: integrity, honesty, fairness, justice, responsibility, accountability, and empathy. Ethical leaders strive to honor and respect others in the organization and seek to empower others to achieve success by focusing on right action”¹⁵¹ (Mintz, 2018, www.ethicssage.com). “When it comes to ethics, we look to leaders to lead on ethics and take responsibility for both good and bad results. Philosophers have been discussing ethical leadership (as in what leaders should do) for quite some time but the topic is relatively new as an area of social scientific study. Leaders who lead ethically are role models, communicating the importance of ethical standards, holding their employees accountable to those standards, and- crucially- designing environments in which others work and live. Ethical leadership has been shown to cause a host of positive outcomes, and to reduce the risk of many negative outcomes. *Leadership may therefore be the most important lever in an ethical system designed to support ethical conduct*”¹⁵² (Ethical Systems.org, 2019, <https://www.ethicalsystems.org/content/Ethical-Systems-Services>). ““An ethical organization is a community of people working together in an environment of mutual respect, where they grow personally, feel fulfilled, contribute to a common good, and share in the internal rewards, such as the achievement of a level of excellence common to a practice as well as the rewards of a job well done. By emphasizing community and internal rewards, ethical leaders commit to following a virtue-oriented approach to decision making based on a foundation of values-based leadership.

¹⁵¹ Mintz, S. (2018) *Leadership and Ethics Go Hand In Hand*. Available from: <https://www.ethicssage.com/2018/03/leadership-ethics-go-hand-in-hand.html>

¹⁵² Ethical Systems.org (2019) *Leadership*. Available from: <https://www.ethicalsystems.org/content/Ethical-Systems-Services>

Leaders lead by example. They set an ethical tone at the top. They lead with an attitude of “Do what I say as well as what I do.” Ethical leadership can be evaluated through a leader’s vision: Visions are not simple goals, but rather ways of seeing the future that implicitly or explicitly entail some notion of the good. Organizations suffer when leadership does not set an ethical tone at the top. The employees may be ethical but acting ethically requires an ethical leader who supports such behavior, not a leader blinded by ambition or greed as occurred in so many of the financial failures of the early 2000s” (Mintz, 2018, www.ethicssage.com). Many organizations around the world are well led and some of these organizations with effective leaders will be discussed in the next section.

7.10 Examples of companies with great leaders

Nowadays most of the organizations now want leaders who can model the way for their employees to follow by practicing exemplary leadership via upholding ethical behavior, values, principles and goals of the organization. Business leaders of today must generally strive to become good-to-great leaders whom people are freely willing to follow and identify with because they feel appreciated and inspired by them. Leadership is key to the growth of an organization and this is reflected by the success of various organizations around the world. Some of the organizations that have succeeded today as a result of good leadership include the following: Ford Motor Corporation, Boeing Inc., Airbus SE and LafargeHolcim. The four organizations are depicted in Figure 7.5 below.

Figure 7.5 Examples of four organizations with outstanding leaders



Source: Modified: (Boeing Inc., 2019; Airbus SE, 2019; Ford Motor Corporation, 2019; LafargeHolcim, 2019)

7.10.1 Boeing Inc.

A good example of an organization that is innovation centred is the Illinois, Chicago, United States of America headquartered Boeing Corporation (Boeing, 2019). “Since July 15, 1916, we've been making the impossible, possible. From producing a single canvas-and-wood airplane to transforming how we fly over oceans and into the stars, The Boeing Company has become the world's largest aerospace company. And we're just getting started. Thank you for making 2016 unforgettable with events, activities and commemorations that celebrated not only our first century of innovation, but also the people and moments that inspire us to live by our founder Bill Boeing's philosophy – ‘build something better.’”¹⁵³ (Boeing Inc., 2019, <https://www.boeing.com/history/>).¹⁵⁴“*Boeing Overview*. Boeing is the world's largest aerospace company and leading manufacturer of commercial jetliners, defense, space and security systems, and service provider of aftermarket support. As America’s biggest manufacturing exporter, the company supports airlines and U.S. and allied government customers in more than 150 countries. Boeing products and tailored services include commercial and military aircraft, satellites, weapons, electronic and defense systems, launch systems, advanced information and communication systems, and performance-based logistics and training. Boeing has a long tradition of aerospace leadership and innovation. The company continues to expand its product line and services to meet emerging customer needs. Its broad range of capabilities includes: creating new, more efficient members of its commercial airplane family; designing, building and integrating military platforms and defense systems; creating advanced technology solutions; and arranging innovative financing and service options for customers. With corporate offices in Chicago, Boeing employs more than 153,000 people across the United States and in more than 65 countries. This represents one of the most diverse, talented and innovative workforces anywhere. Our enterprise also leverages the talents of hundreds of thousands more skilled people working for Boeing suppliers worldwide. Boeing is organized into three business units:

¹⁵³ Boeing Inc., *History: Thank You for Celebrating Our Centennial with Us!*, [Website], 2019, <https://www.boeing.com/history/>, (accessed 12 October 2019).

¹⁵⁴ Boeing Corporation, *Overview*, [Website], 2019, <https://www.boeing.com/company/general-info/index.page#/overview>, (accessed 12 October 2019).

Commercial Airplanes; Defense, Space & Security; and Boeing Global Services, which began operations July 1, 2017. Supporting these units is Boeing Capital Corporation, a global provider of financing solutions. In addition, functional organizations working across the company focus on engineering and program management; technology and development-program execution; advanced design and manufacturing systems; safety, finance, quality and productivity improvement and information technology”¹⁵⁵ (Boeing Corporation, 2019, <https://www.boeing.com/company/general-info/index.page#/overview>). “There’s more innovation underway today at Boeing than at any time in our 101-year history. Recent examples of innovation include the first flights of the [737 MAX 9](#), [787-10](#), and [T-X](#), among other milestones such as the launch of [Boeing AnalytX](#) and [Boeing HorizonX](#). Teams across the global Boeing network continue to transform how we design and build our products, the systems that enable us to work more efficiently, and the work we do to improve the [environmental performance](#) of our products and internal operations. With more than \$3 billion invested annually in research and development, Boeing drives innovation that will transform aerospace and defense as we know it”¹⁵⁶ (Boeing, 2019, <https://www.boeing.com/innovation/>). “*When an accident occurs, we feel it deeply across our company and it intensifies our dedication to designing, building and supporting the safest products in the industry*”¹⁵⁷ (Boeing, 2019, https://www.boeing.com/features/innovation-quarterly/2019_q3/thought-leadership-dennis.page).

7.10.2 Airbus SE

One of the organizations that have managed to set the pace of exemplary leadership and effective corporate branding as a result of its highly functional board of directors is the leading commercial aircraft manufacturer ‘Airbus SE’ which is headquartered in Leiden in the

¹⁵⁵ Boeing Corporation, *Overview*, [Website], 2019, <https://www.boeing.com/company/general-info/index.page#/overview>, (accessed 12 October 2019).

¹⁵⁶ Boeing Inc., *Innovation*, [Website], 2019, <https://www.boeing.com/innovation/>, (accessed 18 July 2019).

¹⁵⁷ Boeing Inc., *Boeing Autonomous Passenger Air Vehicle Completes First Flight*, [Website], 2019, <https://www.boeing.com/features/2019/01/pav-first-flight-01-19.page>, (accessed 12 October 2019).

Netherlands. “The Board of Directors is responsible for the management of the Company and consists of a maximum of 12 members, appointed and removed at the [Shareholders’ Meeting](#). The Board is responsible for the overall conduct of the Company, the management, direction and performance of the Company and its business. The [Board Rules](#) specify that in addition to the Board of Directors’ responsibilities under applicable law and the Articles of Association, the Board of Directors is responsible for certain enumerated categories of decisions. Under the Articles of Association, the Board of Directors is responsible for the management of the Company. Under the Board Rules, the Board of Directors delegates day-to-day management of the Company to the CEO, who, supported by the [Executive Committee](#), makes decisions with respect to the management of the Company. However, the CEO may not enter into transactions that form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors”¹⁵⁸ (Airbus, 2019, <https://www.airbus.com/company/corporate-governance/board-and-board-committees.html>). The current Chairman of the Board at Airbus SE is Denis Ranque and the CEO of Airbus SE is Guillaume Fury (*who is also a current Board Member*). The list of other current board of directors at Airbus SE includes: Victor Chu, Jean-Pierre Clamadieu, Ralph D. Crosby, Jr., Lord Paul Drayson, Catherine Guillouard, Hermann Josef-Lamberti, Amparo Moraleda, Claudi Nemat and Carlos Tavares (Airbus, 2019, <https://www.airbus.com/company/corporate-governance/board-and-board-committees.html>).

7.10.3 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*””¹⁵⁹ (Ford Motor Corporation, 2018). “*We use Henry Ford’s spirit of innovation as a benchmark for bringing new technologies into the*

¹⁵⁸ Airbus (2019) *Board and Board Committees*. Available from: <https://www.airbus.com/company/corporate-governance/board-and-board-committees.html>

¹⁵⁹ Ford Motor Company (2018) *Our Story*. Available from: <https://corporate.ford.com/history.html>

manufacturing process.”¹⁶⁰ (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 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 Mooney¹⁶¹ (Ford Motor Corporation, 2019, <https://media.ford.com/content/fordmedia/fna/us/en/people.filter.members-of-the-board.0.10.html>). ¹⁶²“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). ¹⁶³“*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

¹⁶⁰ Ford Motor Corporation (2018) *Innovation: Research and Innovation Center*. Available from: <http://corporate.ford.com/innovation/research-and-innovation-center.html>

¹⁶¹ 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>

¹⁶² Ford Motor Corporation (2018) *Corporate Governance: Executive Team*. Available from: <https://shareholder.ford.com/investors/corporate-governance/executive-team/default.aspx>

¹⁶³ Ford Motor Corporation (2019) *100 Years Moving Assembly Line*. Available from: <https://corporate.ford.com/articles/history/100-years-moving-assembly-line.html>

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>).

7.10.4 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 Ramirez¹⁶⁴ (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”¹⁶⁵ (LafargeHolcim, 2019, <https://www.lafargeholcim.com/our-strategy>). “*Board of*

¹⁶⁴ LafargeHolcim (2019) *Board of Directors*. Available from: <https://www.lafargeholcim.com/board-directors>

¹⁶⁵ LafargeHolcim (2019) *Our Strategy*. Available from: <https://www.lafargeholcim.com/our-strategy>

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>). Leadership styles used by a leader help to determine their effectiveness as a leader and these will be covered in the following section.

7.11 Servant Leadership

Some of the common characteristics of servant leaders identified by numerous researchers include the following: willingness to listen, they are highly aware of their immediate environment, persuasiveness, compassion, foresight, total devotion to their cause, humility, guardianship and so on. Servant leadership nowadays is commonly practiced in churches and the non-profit organizations sector where the welfare of people is considered the first priority. Another type of leadership commonly found in most great leaders is charismatic leadership and this will be covered in the next section.

7.12 Charismatic Leadership

Many years ago Max Weber (1947) was one of the first scholars to mention about charismatic leadership even though the terminology became more famous later on in the 1980s onwards. In general *charisma* refers to the distinctive natural personality traits that are found in an individual that make him or her to be identified as a leader who possesses supernatural or superhuman wisdom and powers that inspire people to follow him or her. According to Riggio (2010) although people may not agree on a definition of charisma, they can generally agree on who has it and who doesn't. What is charisma? I've been studying that question for more than 30 years and we believe we have a good understanding of the personal qualities that can make any individual "charismatic". This "*personal charisma*" is not the same as charismatic leadership, but

charismatic leaders possess most, if not all, of the basic building blocks of personal charisma. Personal charisma is a constellation of complex and sophisticated social and emotional skills. They allow charismatic individuals to affect and influence others at a deep emotional level, to communicate effectively with them, and to make strong interpersonal connections. Here are the elements of personal charisma: (1) *Emotional expressiveness*. Charismatic individuals express their feelings spontaneously and genuinely. (2) *Emotional sensitivity*. This is the ability to read others' emotions, and allows the charismatic person to make an emotional connection by responding to their feelings. (3) *Emotional control*. Truly charismatic individuals have the ability to control and regulate their emotional displays¹⁶⁶ (Riggio, 2010, www.psychologytoday.com/). The essence behind *charismatic leadership* is the ability to communicate (*by being verbally eloquent and having exceptionally good writing skills*), persuasiveness of the leader to communicate an inspiring vision of the future and lastly having a dominant personality. It may be argued that charismatic leaders are born while other researchers seem to suggest that individuals can learn to become charismatic leaders. Most of the good-to-great business leaders currently managing some of the largest organizations around the world managed to learn effective communication skills in order to develop some form of personal charisma which they now use to motivate their employees and other stakeholders of their organizations when giving board room/motivational speeches, induction training and so on.

7.13 Conclusion

Therefore leadership involves persuading and convincing people to work hard and be willing to achieve the organization's goals and objectives. The objectives of leadership are vital as they form the basis of linking and attaining an organizational purpose. In general the main objective of leadership in an organization is to increase the productivity levels of both the employees and organization through inspiring people to go the extra mile in carrying-out their day-to-day work

¹⁶⁶ Riggio, R. (2010) *Charisma: What Is It? Do You Have It?* Available from:

<https://www.psychologytoday.com/us/blog/cutting-edge-leadership/201002/charisma-what-is-it-do-you-have-it>

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activities. It can be concluded that effective leadership is the glue that keeps together all the activities in the organization to work harmoniously such as the ethics & compliance policy, corporate governance guidelines and organizational strategy. Effective leaders have the ability to execute strategy whilst thinking strategically.

7.14 Review questions

- (1) Define the terms: a leader, leadership and outline the objectives of leadership in an organization? Identify the benefits of effective business leadership?
- (2) Explain the benefits of effective business leadership? Outline the qualities of a good leader? Describe the characteristics associated with leaders who uphold good corporate governance practices?
- (3) Identify the characteristics of an ethical leader? Explain why ethics and leadership are related?
- (4) Define the term: exemplary leadership? Identify six examples of leading global companies with great leaders?
- (5) What is servant leadership and give relevant examples?

Chapter 8: Performance management: evaluating the performance of a board in an organization

After reading this chapter you should be able to:

- Define the following terms: performance, performance management, evaluation and assessment.
- Describe the 360-degree (multi-rater) assessment process. Identify the indicators of an effective performance management system. Discuss the importance of board evaluations.
- Describe the board assessment process. Explain the important questions for the board before it starts the board evaluation process.
- Describe how a board can conduct a board of director performance assessment. Explain the eleven reasons why performance management systems become unsuccessful.
- Describe the misconceptions of performance reviews or appraisals. Identify the problems faced during the performance appraisal or review.

8.1 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. Employees', executive management and 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. "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”¹⁶⁷ (Governance Professionals of Canada, 2018, <https://gpccanada.org/board-effectiveness>). Performance management helps to maintain the level of performance of all the employees, executive directors and board of directors in the organization so that all the organization’s departments and people can properly function and coordinate together in order to achieve the goals of the organization. Various research findings conducted by leading human resources management field academics and gurus have successfully identified that performance management is a recurring activity that is done by an organization’s management to successfully bring together goal setting and performance appraisal so that it is directly linked to the corporate strategy. In general performance management is the process that boosts the employees’, executive directors and the board of directors’ morale and focus towards attaining the organization’s set strategic objectives and goals. The global ‘war for talent’ has managed to put pressure on organizations to adopt effective performance management processes to successfully retain their talented employees (*or knowledge workers*), executive directors and the board of directors who possess the sought-after skills and experience in the labour market. The meaning of the term performance and evaluation will be discussed in detail in the following section.

8.2 Definition of terms

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). *Performance management* is a human resources management activity that utilizes a mixture of motivational philosophies and implements the more successful characteristics of ‘management by objectives’ (*MBO*) and ‘performance appraisals’ with the main aim of providing guidance and focus to the organization’s human resources, to enhance and sustain individual and team performance (Hunter, 2002:143). On the other hand the term ‘evaluate’ can be 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 term ‘*evaluation and or assessment*’ is whereby something is measured to check if it is performing in a normal or abnormal way. The following

¹⁶⁷ Governance Professionals of Canada (2018) *Board Effectiveness*. Available from: <https://gpccanada.org/board-effectiveness>

section will cover one of the assessment processes used to measure the performance of directors or employees in an organization.

8.3 The 360-degree (multi-rater) assessment process

According to the Human Resources Council Canada (2018) the 360-degree feedback, also known as 'multi-rater feedback', is employee development feedback that comes from colleagues, peers and managers in the organization, as well as self-assessment, and sometimes sources such as clients, volunteers or other stakeholders. Senior managers (*including executive directors*) are responsible for assessing the performance of other employees but often do not receive adequate feedback themselves. 360-degree feedback allows the individual to understand how his or her effectiveness as an employee, manager, or coworker is viewed by others¹⁶⁸ (Human Resources Council of Canada, 2018, www.hrcouncil.ca/). “Designing a good assessment tool and implementation process takes time. Some organizations may choose to hire external professionals to design, implement and analyze a 360-degree assessment. If assessments are administered without adequate training of participants, raters and facilitators, serious confidentiality issues can be raised, and relationships and individuals can be negatively impacted” (Human Resources Council of Canada, 2018, www.hrcouncil.ca/). ““*What an effective 360-degree feedback process can achieve includes: (1) individuals get a broad perspective of how they are perceived by others and how they impact others — both positively and negatively; (2) encourages open feedback and this feedback is often perceived as more valid and objective, leading to the acceptance of results and actions required; (3) clarifies critical performance aspects, reinforces desired competencies and identifies strengths that can be used to the best advantage of the organization; (4) supports a climate of continuous improvement and focuses on the agenda for development, identifying key development areas for the individual, a team or the organization as a whole; (5) gaps are identified between employee’s self-perception versus the perception of the manager, peers or direct reports; (6) when feedback comes from a number of individuals in various job functions, discrimination because of race, age, gender, and so on, is reduced. Similarly, the "horns and halo" effect, in which a supervisor rates performance*

¹⁶⁸ Human Resources Council Canada (2015) *Keeping the Right People: Performance Management*. Available from: www.hrcouncil.ca/hr-toolkit/keeping-people-performance-management.cfm

based on his or her most recent interactions with the employee is also reduced”” (Human Resources Council of Canada, 2018, www.hrcouncil.ca/). According to the Human Resources Council Canada (2018) *why organizations may choose not to adopt the 360-degree approach*: (1) feedback from multiple assessors increases the number of people participating in the process and the organizational time invested; (2) employees are not ready to give or receive honest and open feedback. The process can be intimidating as few people enjoy being evaluated, especially by a circle of colleagues and peers. Some cultures rigidly avoid passing constructive feedback, or information, to superiors or managers; (3) if a performance management system is tied to pay increase and reward systems, people may be hesitant to participate. There is a big difference between providing feedback that will contribute to professional development or providing feedback that determines pay, rewards, and promotion¹⁶⁹ (Human Resources Council Canada, 2018, www.hrcouncil.ca/hr-toolkit/keeping-people-performance-management.cfm). In the next section the various indicators of an effective performance management system will be discussed in-depth.

8.4 Indicators of an effective performance management system

According to the Human Resources Council Canada (2018) an effective performance management system will:

- Be job specific, covering a broad range of jobs in the organization.
- Align with your organization’s strategic direction and culture.
- Be practical and easy to understand and use.
- Provide an accurate picture of each employee’s performance.
- Include a collaborative process for setting goals and reviewing performance based on a two-way communication between the employee and manager.
- Monitor and measure results (*what*) and behaviors (*how*).

¹⁶⁹ Human Resources Council Canada (2015) *Keeping the Right People: Performance Management*. Available from: www.hrcouncil.ca/hr-toolkit/keeping-people-performance-management.cfm

- Include both positive feedback for a job well done and constructive feedback when improvement is needed.
- Provide training and development opportunities for improving performance.
- Ensure that employee work plans support the strategic direction of the organization.
- Establish clear communication between managers and employees about what they are expected to accomplish¹⁷⁰ (Human Resources Council of Canada, 2018, www.hrcouncil.ca/). The importance of board evaluations in an organization will be discussed in the following section.

8.5 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”¹⁷¹ (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,

¹⁷⁰ Human Resources Council Canada (2015) *Keeping the Right People: Performance Management*. Available from: www.hrcouncil.ca/hr-toolkit/keeping-people-performance-management.cfm

¹⁷¹ Governance Professionals of Canada (2018) *Board Effectiveness*. Available from: <https://gpcanada.org/board-effectiveness>

- 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,
- 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 to provide the organization with information to use in assessing if 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 an extent that they are successfully motivating the board of directors to continue to commit to the organization's employer brand,
- 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.

8.6 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”¹⁷² (Governance Professionals of Canada, 2018, <https://gpcanada.org/board-effectiveness>). Some of the questions that the board must first answer before conducting the board evaluation will be discussed in the following section.

8.7 The important questions for the board before it starts the board evaluation process

‘The critical questions that must first be answered by the board before starting the board evaluation process’. A number of questions must first be addressed by the board before it executes the board evaluation process and these include the following: (1) what are the main reasons for conducting the evaluation and what are the goals of the board evaluation process? (2) What exactly will be the main focus of the board evaluation? (3) How will the process be carried-out? (4) What are the board evaluation techniques that will be implemented during the process? (5) What are the expected results of carrying-out the board evaluation?¹⁷³ (Australian Institute of Company Directors, 2016:1). The process that is used to evaluate a CEO in an organization will be discussed in the following section.

¹⁷² Governance Professionals of Canada (2018) *Board Effectiveness*. Available from: <https://gpcanada.org/board-effectiveness>

¹⁷³ Australian Institute of Company Directors ,2016, *Board performance: 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).

8.8 Executive Board of Directors Performance Assessment

One of the most critical duties of any board is to assess the performance of the chief executive officer and today there are various methods that can be used by a board to conduct the CEO assessment. 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.

8.8.1 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 8.1 the abbreviation 'EM' refers to executive management and 'BoD' refers to board of director.

Table 8.1 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</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>BoD?</i></p> <p><i>1.5 Is the financial compensation you have received in the previous year appropriate?</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 BoD and EM with regards to exchange of information?</i></p> <p><i>3.4 What is your assessment of the objectives set by the BoD for the EM against last financial year?</i></p> <p><i>3.5 What is your assessment of the BoD's knowledge about employment contracts of the members of the EM?</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?¹⁷⁴</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 of preparation for the meeting?</i></p> <p><i>4.4 What is your assessment of chairman's management of BoD meetings?</i></p> <p><i>4.5 What is your assessment of how board members handle conflicts of interest?</i></p> <p><i>4.6 What is your assessment of the decision making by the board?</i></p> <p><i>4.7 What is your assessment of the quality of the minutes</i></p>

¹⁷⁴ International Centre for Corporate Governance (2018) *Board of Directors Self-Evaluation Questionnaire, as of 2010*. Available from: <https://www.icfcg.org/best-practice/49-bod-selfevaluation.pdf> [Accessed 2018, 23 November]

	<i>of the BoD meetings?</i>
<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 following section will help discuss in-depth some of the few common reasons why performance management systems become unsuccessful in organizations.

8.9 Common reasons why performance management systems become unsuccessful

Performance management systems fail in some organizations due to a number of reasons and these include:

- When the performance management system process is poorly designed for instance it can be designed in such a manner that makes the organization to implement it as a once-off activity instead of a process,
- Lack of effective communication to educate the employees, executive directors and board of directors about the advantages of a performance management system process leads to performance management systems failure in organizations,
- Recency bias is when managers or the leader of the board ignores events that happened over the course of the year when carrying-out their performance reviews and they only take into account recent work results of the employees or board members during performance reviews therefore

this makes performance management systems to be invalid and unreliable in rating employees' performance standards¹⁷⁵ (Lunenberg, 2012:8). **Permission granted by William Allan Kritsonis, PhD, Editor-in-Chief, NATIONAL FORUM JOURNALS, Founded 1982. Address: 17603 Bending Post Drive, Houston, Texas 77095 - Global Website: <http://www.nationalforum.com/>,**

- The failure to interrelate employees' and or board members remuneration to their job performance is one of the main reasons performance management systems fail today and this is due to the fact that rewards help to boost employee morale and acceptance of current performance management systems in the organization,
- Most of the performance management systems fail when the organization has managers or a chairperson who wants to be called 'Mr. or Mrs. Nice Person' because they want everyone to like them for being communicators of good news only. Therefore, they are willing to focus their attention on informing employees about their areas of strengths or where they have accomplished remarkable achievements and whilst simultaneously ensuring that they avoid informing the employees about their poor job performance standards (*their areas of weaknesses they must improve through in-house support measures such as training and coaching*),
- Insufficient training and development of the chairman and CEO on how to properly conduct performance assessments of the board of directors is one of the reasons why performance management systems fail in organizations. When the performance of the executive directors and board of directors in an organization cannot be measured the whole fundamental purpose of performance management systems becomes invalid due to poor implementation and this one of the key reasons why performance management systems fail in organizations,
- Poor communication channels can lead to performance management systems failure in organizations. One of the most critical ingredient to achieving a successful performance review is the provision of feedback to the directors with the performance itself being assessed through using effective communication channels with the directors immediate supervisors (*the CEO or*

¹⁷⁵ Lunenberg, F.C. (2012) *Performance Appraisal: Methods and Rating Errors*. **Permission granted by William Allan Kritsonis, PhD, Editor-in-Chief, NATIONAL FORUM JOURNALS, Founded 1982. Address: 17603 Bending Post Drive, Houston, Texas 77095 - Global Website: <http://www.nationalforum.com/>**

the board chairman). Therefore, poor communication channels between the directors and their immediate supervisors' results in the following: (1) delayed feedback, (2) the misinterpretation of performance assessment results (3) creation of misconceptions or negative myths about performance assessments in the organization by the board of directors and executive management, (4) lack of knowledge by the board of directors and executive management of the areas of weaknesses they must improve on through utilizing the organization's board support mechanisms such as training, coaching, job re-design, teleworking and so on,

8.10 Misconceptions of performance reviews or appraisals

In general many employees or board members consider performance reviews as a waste of time and they are used as a tool by the organization's leaders to unfairly evaluate them. While on the other hand management or leaders of the board often feel that performance reviews also make them break relationships with employees or board members especially if they are performing poorly on-the-job and disciplinary procedures have to be recommended. Furthermore, there is a misconception that performance appraisals must only be conducted annually and some employees often feel that appraisals must be conducted regularly since performance management is a continuous process (Norman, 2011, www.tlnt.com/). In the next section the various problems faced during the performance appraisal or review process will be clearly outlined.

8.11 Problems faced during the performance appraisal or review process

In general performance appraisals are not immune from the personal judgements of a manager or chairman during the appraisal process since a manager or chairman is also a human being with the following: a personal character of their own, their own personal opinions about work/personal life activities, emotional feelings and so on. The challenges of subjectivity faced during the performance review process include:

8.11.1 Happiness effect – it is also known as the *halo effect*. “This occurs where a manager's assessment of his or her subordinate is influenced by something which that person did well and the manager has the perception that all of the subordinate's performance is therefore good” (Hunter, 2002:17). In this effect a manager conducts performance appraisals and scores the

employee as a top performer based on one activity the employee performed outstandingly. Thus the manager is made to feel happy or impressed by this one activity.

8.11.2 Central tendency – some organizations use rating scales such as Likert scales for example, a scale that starts measuring from 1,2,3,4,5,6,7 where 1 is low, 4 is average and 7 is the highest score based on factors such as punctuality, completion of tasks, participation in meetings, customer care, integrity and so on. Some managers are biased towards consistently rating their employees as average performers due to their central tendency bias¹⁷⁶ (Hunter, 2002:171).

8.11.3 Recency effect – performance appraisals are conducted based on work events that happened lately and there are mainly common with managers who are highly absent at the workplace and who usually do not consistently monitor their employees' job performance and record their work activities on a daily basis. A manager uses the recency effect when he or she cannot recall the employee's overall job performance throughout the year¹⁷⁷ (Lunenberg, 2012:8)

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8.11.4 'Same as me' effect – it is also known as '*similar to me*' effect. "Some managers have a tendency to favour people who either look or think like them" (Hunter, 2002:172). The conclusion of this chapter will be covered in the following section.

8.12 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

¹⁷⁶ Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management.*, Pietermaritzburg: Bytes Document Solutions.

¹⁷⁷ Lunenberg, F.C. (2012) *Performance Appraisal: Methods and Rating Errors*. Permission granted by William Allan Kritsonis, PhD, Editor-in-Chief, NATIONAL FORUM JOURNALS, Founded 1982. Address: [17603 Bending Post Drive, Houston, Texas 77095](http://www.nationalforum.com/) - Global Website: <http://www.nationalforum.com/>

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.

8.13 Review question

- (1) Define the following terms: performance, performance management, evaluation and assessment?
- (2) Describe in-depth the 360-degree (multi-rater) assessment process? Describe the various indicators of an effective performance management system? Explain in-depth the importance of board evaluations?
- (3) Explain the board assessment process? Identify some of the important questions for the board before it starts the board evaluation process?
- (4) Discuss in-depth how a board can 'Conduct a Board of Director Performance Assessment'? Describe the eleven reasons why performance management systems become unsuccessful?
- (5) Explain the misconceptions of performance reviews or appraisals? Outline and explain the problems faced during the performance appraisal or review?

Chapter 9: Compensation

After reading this chapter you should be able to:

- Define the following terms: remuneration, compensation and compensation management. List the objectives of compensation.
- Explain who is responsible for managing the compensation of the board of directors. Identify the characteristics that help to identify an effective compensation program.
- Describe the techniques for determining compensation. Discuss the Macro and Micro environmental factors affecting pay.
- List and explain the different types of compensation.
- Describe compensation governance.

9.1 Introduction

People go to work to earn an income to use for paying their costs of living and in the board of director profession there are some not-for-profit organizations where board members volunteer their employment services free-of-charge in order to support the goals, mission and vision of the nonprofit or not-for-profit organization. Today most organizations in the global economy are offering their employees, executive directors and board of directors' compensation that is either too high or too low. In general the management of compensation plans at the workplace is one of the most critical activities performed by a human resources department and the board's remuneration committee in any organization. Generally labour unrests mainly in the form of strikes and protest actions that occur in various countries around the world today are mainly caused by issues that relate to compensation (*poor wages and uncondusive working conditions*) thus this makes compensation management one of the major priorities for executive management and the board of directors. Today there are several good examples of countries (*both in the developed and developing world*) that are highly recognized and respected for their remarkable pro-equality labour practices and collective bargaining agreements when it comes to the compensation of employees. The human resources costs in every organization tend to vary depending on the organization's size, type of products, location, plant layout, rate of growth and general profitability. Undoubtedly, compensation is one way an organization can successfully

retain its talented employees, executive directors and board of directors and be able to successfully boost their job satisfaction levels (Khan, Aslam and Lodhi, 2001:90). Today compensation management has become a critical responsibility of the board's remuneration committee since it requires precise, open, on-going evaluation and direct alignment to both the business and corporate strategy. The definition of compensation will be covered in the following section.

9.2 Definition of terms

According to the International Labour Organization C100 – Equal Remuneration Convention, 1951 (2018) the term '*remuneration*' includes the ordinary, basic or minimum wage or salary and any additional emoluments whatsoever payable directly or indirectly, whether in cash or in kind, by the employer to the worker and arising out of the worker's employment¹⁷⁸ (International Labour Organization C100 – Equal Remuneration Convention, 2018). *Compensation* is the monetary and non-monetary reward that is paid to employees after a specific period of time in recognition and appreciation for the work they would have done for the organization. In addition *compensation management* is the process that is responsible for ensuring that the organization effectively designs market related, fair, highly attractive and cost-effective pay structures that help the organization to clearly highlight the fact that it strongly values, respects and appreciates the various services it receives from its employees, executive directors and board of directors on a day-to-day basis. Compensation management helps the organization to succeed in lowering its employees, executive directors and board of directors intention to leave the organization while simultaneously boosting its talent retention programs through offering employees, executive directors and board of directors market related remuneration packages. The objectives of compensation management in an organization are many and these will be covered in the following section.

¹⁷⁸ International Labour Organization (2018) *C100 – Equal Remuneration Convention, 1951*. Available from: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C100

9.3 Objectives of compensation

Compensation management has several objectives it aims to achieve in an organization across all the hierarchical levels of the organizational structure (*that is low, middle and top*) and these include the following:

- To ensure external equity in the organization by ensuring that all remuneration packages received by employees, executive directors and board of directors are in direct alignment with the current labour market remuneration rates¹⁷⁹ (Synergita, 2013, <https://blog.synergita.com>),
- To link employees, executive directors and board of directors remuneration packages to their job performance so that they may improve their individual and organizational productivity levels,
- To foster a spirit of teamwork in the modern day working environment since it helps to boost employees', executive directors and board of directors' innovation skills and this can easily be done by offering team-based bonuses,
- To help ensure that employees', executive directors and board of directors' consistently receive their compensation on-time, in the right amount and in a professionally done manner in order to maintain the image of the organization as a reputable employer brand,
- To help reinforce, reward and encourage high repetition of strong work ethics and high job performance amongst employees', executive directors and board of directors' in the organization,
- To help boost the competitiveness and positioning of the organization in the labour market as a good employer brand and employer of first choice by ensuring that all the current employees', executive directors and board of directors' are adequately remunerated and happy at the workplace,

¹⁷⁹ Synergita (2013) *What Are the Objectives of Employee Compensation Planning?* Available from: <https://blog.synergita.com/2013/09/compensation-planning-objectives/>

- To help ensure that the organization attracts highly talented people in the labour market by implementing effective compensation management policies and offering employees', executive directors and board of directors' highly competitive remuneration rates¹⁸⁰ (Synergita, 2013, <https://blog.synergita.com>),
- To effectively manage the organization's labour costs through ensuring that employees', executive directors and board of directors' are not overpaid or underpaid since the employment of people is very costly nowadays (Synergita, 2013, <https://blog.synergita.com>),

The following section will help point-out the parties or committees responsible for the compensation management of the board of directors in an organization of any size or type.

9.4 Who is responsible for managing the compensation of the board of directors?

In general standing committees are often given the task of managing the compensation of executive directors and board of directors on a regular basis for instance the remuneration committee has the responsibility of dealing with all issues that are related to the board's remuneration (Institute of Directors, 2019, www.iod.com). *“The role of the Remuneration Committee.* Devising the appropriate *remuneration packages* for the executive directors can be one of the most contentious issues a board faces - not least because of the publicity executive pay has attracted in recent years. Levels of remuneration should be sufficient to attract and retain the executive directors needed to run the company, but companies should avoid paying more than necessary. It is vital that decisions on executive remuneration, benefits and bonuses are seen to be taken by those who do not stand to benefit directly from them. In listed companies and some larger private companies therefore, policy on executive remuneration is usually decided by a committee of non-executive directors. As a matter of good practice, executive directors should not be responsible for determining their own remuneration. The UK Corporate Governance Code recommends that this should be the remit of a remuneration committee made up of at least three

¹⁸⁰ Synergita (2013) *What Are the Objectives of Employee Compensation Planning?* Available from: <https://blog.synergita.com/2013/09/compensation-planning-objectives/>

or in the case of smaller companies two, independent non-executive directors”¹⁸¹ (Institute of Directors, 2019, www.iod.com). Therefore, compensation of board of directors is set and approved by the remuneration committee while in other organizations both the remuneration committee and the governance committee are involved in the process of managing the compensation of the board. The characteristics of an effective compensation program are many and these are clearly outlined in the following section.

9.5 Characteristics that help to identify an effective compensation program

A compensation program helps to point-out the remuneration (*wages or salaries*) offered to employees’, executive directors and board of directors’ excluding benefits. A well designed compensation program can help to improve productivity and job satisfaction levels in an organization while simultaneously avoiding inequalities in remuneration distribution amongst employees’, executive directors and board of directors’ doing similar jobs in the organization. Human resources specialists and board standing committees around the world today now use some of the eight traits that are covered in this section to identify an effective compensation plan. The *eight traits of an effective compensation plan* include the following:

(1) ‘Simplicity’ is a basic requirement for any effective compensation strategy that is adopted by an organization in order for employees’, executive directors and board of directors’ to easily accept and understand it. In addition the human resources department and other functional departments must be able to easily implement the compensation plan/strategy as well,

(2) Good compensation plans are ‘flexible’ and they allow ‘regular salary audits’ to take place in the organization since the macro-environmental forces (*namely the economic conditions of a country are highly dynamic for instance if inflation or interest rates in an economy increase it means that salary adjustments must also take place*). Therefore, salary audits enable the organization to successfully assess whether the current remuneration rates it is offering its employees’, executive directors and board of directors’ is in direct alignment with the current labour market rates or not,

¹⁸¹ Institute of Directors (2019) *The Role of Board Committees*. Available from:

<https://www.iod.com/news/news/articles/The-roles-of-board-committees>

(3) Effective compensation plans have the ‘total support of the organization’s senior management and top leadership’ (*board of directors*) and they are highly involved in the compensation plan’s implementation,

(4) Good compensation plans are ‘directly linked to performance’ since this enables all top performing people to be rewarded for their hard work. In addition performance related compensation plans tend to encourage a strong work ethic behavior amongst the employees’, executive directors and board of directors’ in the organization and this maintains high productivity levels,

(5) An effective compensation plan must be ‘legally compliant with the country’s labour laws’ (*namely; the Equal Opportunity Employment laws, Anti-Discrimination laws, the Employment Relations Act and many other labour laws*) including international compensation laws of world bodies such as the International Labour Organization (ILO) in terms of equality in salary payments to employees (*for instance there must be equal pay for equal work*), pay levels, pay increments and so on (ILO, 2018, <http://www.ilo.org/>). According to the International Labour Organization C100 – Equal Remuneration Convention, 1951 (2018) each Member shall, by means appropriate to the methods in operation for determining rates of remuneration, promote and, in so far as is consistent with such methods, ensure the application to all workers of the principle of equal remuneration for men and women workers for work of equal value¹⁸² (International Labour Organization C100 – Equal Remuneration Convention, 2018, <http://www.ilo.org/>),

(6) An effective compensation plan must be highly motivating to the employees’, executive directors and board of directors’ and it must also be able to fulfill their basic needs (*namely; food, shelter, transport, health care, education, clothing and so on*) in general. Good compensation plans tend to ensure that the employees’, executive directors and board of

¹⁸² International Labour Organization (2018) *C100 – Equal Remuneration Convention, 1951*. Available from: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C100

directors' are highly motivated so that they continue to go the extra mile in their day-to-day work activities,

(7) In general an effective compensation plan must be 'highly competitive' in order to boost the organization's image in the labour market as a powerful attractive employer brand and employer of first choice for many job applicants,

(8) Good compensation plans are 'consistently in direct alignment with the organization's strategy, goals, objectives' and they help to ensure that the employees', executive directors and board of directors' feel highly valued in the organization,

The techniques that are used by organizations to determine compensation are covered in the following section.

9.6 Techniques for determining compensation

In general there are two methods or techniques that are used to determine compensation and these are depicted in Figure 9.1 below.

Figure 9.1 Two methods used to determine compensation



Source: Modified: (Saiyadain, 2009:371; Hunter, 2002:116)

Figure 9.1 clearly pointed-out the two techniques that are used to determine compensation in an organization and these will be further discussed.

9.6.1 Salary surveys

One of the simplest and less costly ways that can be used to determine compensation is carrying-out salary surveys to assess the industry remuneration rates for jobs that are similar to those offered by the organization¹⁸³ (Saiyadain, 2009:371). Global research consulting firms and various leading board of director associations/institutes have the adequate effective resources to use to help the organization to conduct salary surveys. Alternatively the organization itself can carry-out its own salary surveys through its standing committees such as the nominations, remunerations and governance committees. Determining the values of jobs in organizations helps the human resources department and the remuneration committee of the board to allocate remuneration packages to employees or directors and this will be discussed in the following section.

9.6.2 Job Evaluation

The classification of the organization's jobs is also called 'job evaluation' and this is a useful activity in the human resources department and the remuneration committee of the board. In general, *job evaluation* is a method of determining compensation that aims to determine the link between the contribution of an individual employee and the compensation paid to the employee for their labour or contribution in the organization¹⁸⁴ (Bussin, 2007). Furthermore, *job evaluation* entails assessing the tasks and responsibilities of a job in order for the organization to rank them according to their job title and hierarchy which assists in the allocation of compensation¹⁸⁵ (Hunter, 2002:116). Generally a person specification is usually shared by jobs that have related tasks in the organization while on the other hand a job description is also used during the job evaluation process to provide an overview of the following: (1) the work involved in the job, (2) the category of work in the organizational structure, (3) the type of knowledge and skill that is

¹⁸³ Saiyadain, M.S. (2009) *Human Resources Management*. 4th Edition, New Delhi: Tata McGraw-Hill Publishing Company Limited, p370-374.

¹⁸⁴ Bussin, M. (2007) *Job Evaluation and Remuneration Equity*. Available from: www.humancapitalreview.org/content/default.asp?Article_ID=257

¹⁸⁵ Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management*. Pietermaritzburg: Bytes Document Solutions,

needed to accomplish satisfactory job performance and so on. For example, a *human resources manager* with a Bachelor of Commerce (*BCom Honors*) degree & a Master of Commerce (*MCom*) degree in Human Resources Management who is responsible for 25 employees (*who all possess university degrees in business administration & human resources management*) in his department. The human resources manager's compensation may be different from that received by a *production supervisor* with an 'Advanced National Diploma in Operations Management' who supervises 180 employees. Human resources managers in general they devise operational plans of their departments that are in direct alignment with the strategic objectives of the organization and they have the final decision-making authority in their department. Whereas the production supervisor is delegated tasks by the operations manager who is the head of the department they work (*whose job category is the same level as that of a human resources manager*) (Hunter, 2002:116). Therefore, job evaluation assesses all these factors and in the above example it appears as if the human resources manager will earn a higher salary and benefits due to his or her position title, level of knowledge, decision making power and involvement in devising operational and strategic objectives of the organization. It should be noted that job evaluation systems ignore performance appraisal or performance management systems since performance is not measured or needed when assessing the value of a job in an organization¹⁸⁶ (Bussin, 2007:2). Various environmental factors affect pay in organizations today and these will be discussed in the following section.

9.7 Macro and Micro environmental factors affecting pay

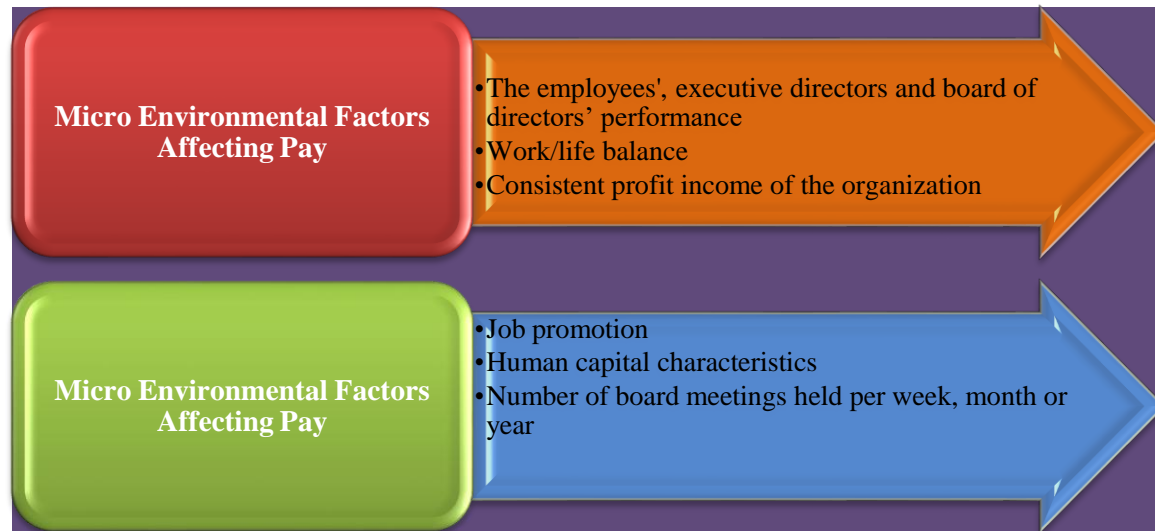
There are various macro and micro environmental forces that affect pay in organizations nowadays. Numerous micro-environmental factors affect compensation and these will be covered comprehensively in the following section.

9.7.1 Micro environmental factors affecting compensation

In general there are several micro-environmental factors that are affecting pay and these are depicted in Figure 9.2 below.

¹⁸⁶ Bussin, M. (2007) *Job Evaluation and Remuneration Equity*. Available from: www.humancapitalreview.org/content/default.asp?Article_ID=257

Figure 9.2 Micro environmental factors affecting pay



Source: Modified: (Synergita, 2013; Taylor, 2003:6; Ferrell and Hirt, 2000:19)

Figure 9.2 clearly pointed-out the various micro-environmental factors that affect pay in the organization across all organizational hierarchy levels and these are further discussed as follows:

9.7.1.1 The employees', executive directors and board of directors' performance

In general employees, executive directors and board of directors' performance is one of the micro-environmental factors affecting compensation. Nowadays some of the organizations use performance based remuneration packages therefore if the employees, executive directors and board of directors' level of output is higher their remuneration for that particular year will also increase vice versa if output is low. Therefore, employee performance affects levels of pay in organizations¹⁸⁷ (Synergita, 2013, <https://blog.synergita.com>).

¹⁸⁷ Synergita (2013) *What Are the Objectives of Employee Compensation Planning?* Available from: <https://blog.synergita.com/2013/09/compensation-planning-objectives/>

9.7.1.2 Work/Life balance

Figure 9.2 helps to depict that work/life balance is another factor affecting compensation¹⁸⁸. Some employees or executive directors due to the demands of their personal lives (*for instance working mothers*) prefer to work for 2-3 days per week to focus on both their family and work-life therefore their remuneration levels will be lower than those of employees who come to work every day ‘for the full 5 working days of the week’ (*Monday-Friday from 8am - 5pm*).

9.7.1.3 Consistent profit income of the organization

When an organization consistently receives positive profit income on a year-on-year basis from the sale of its products/services in the market it is more likely to afford to pay employees, executive directors and board of directors’ bonus incentives and salary increments or competitive salary packages compared to a situation whereby the organization’s products or services are generating a negative profit income or loss. Generally during financial time periods where the organizations is generating negative profit income or huge financial losses drastic measures are usually taken to cut down on expenditure such as labour costs and many other operating costs. In conclusion profitability influences pay within organizations.

9.7.1.4 Job promotions

In general when an employee or an executive director is moved from a lower job grade to go and work at a higher grade in the organization and this generally affects their level of pay as one’s career progresses from the lower level to the upper level of the organizational structure their salary and benefits increase as well. For example, the Chief Executive Officer or the Chief Operations Officer of the organization can be promoted by the nominations committee of the board to occupy the job positions of a CEO and Chairman in the organization. “A *promotion* is a change of job to a higher level within the organisation. The promotion policy within an organisation again, must be clear, fair and have a transparent process that applies to all

¹⁸⁸ Heathfield, S. M. (2018) *Work-Life Balance with Flexible Policies*. Available from:

<https://www.thebalancecareers.com/work-life-balance-1918292>

employees within the organisation to comply with the principle of natural justice”¹⁸⁹ (Human Resources Institute of New Zealand, 2018).

9.7.1.5 Human capital characteristics

Generally employees, executive directors and board of directors with high educational qualifications and experience do not come cheap and they need to be paid high salaries and benefits to keep them happy and be willing to continue to work for the organization. Whereas semi-skilled and unskilled employees are generally not expensive to employ compared to the highly skilled employees. Over the past few decades various human resources management field academics have focused their research studies on identifying the factors that influence executive pay in the modern day global labour market. Some of the factors that have since been identified by researchers as having a significant influence on executive pay include: performance, human capital characteristics and the ability to network. In a nutshell the human capital characteristics needed to perform the job influence the level of pay.

9.7.1.6 Number of board meetings held per week, month or year

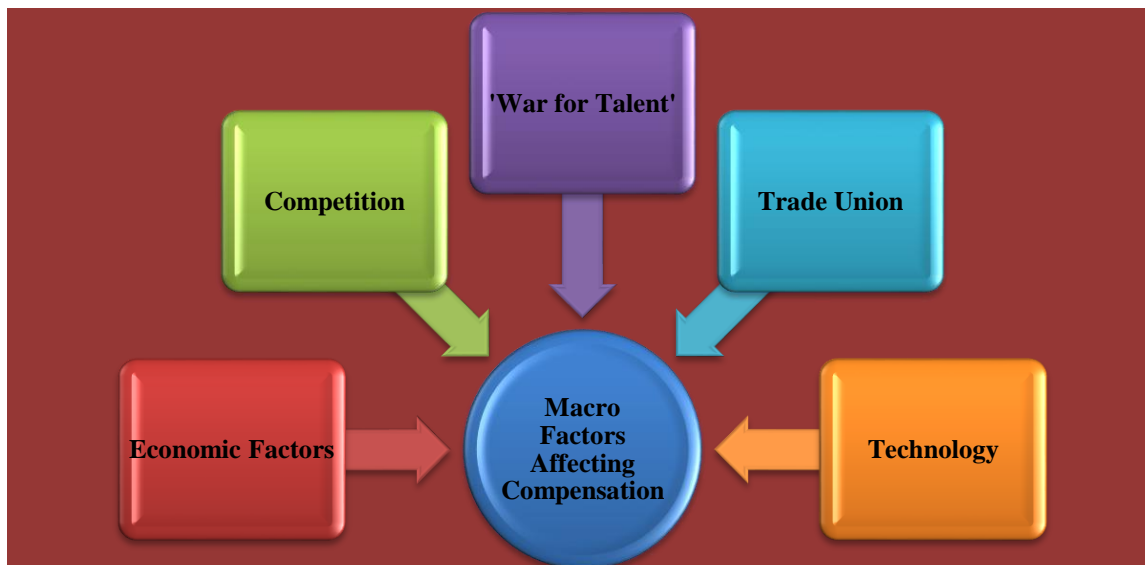
Another factor that influences the pay of the board of directors is the total number of sittings done in the boardroom to conduct the board’s various duties or activities and generally in some leading global organizations board meetings can be conducted: (1) once per week or (2) every two weeks, (3) once per month and so on. In addition in some organizations board of directors pay is often multiplied by the number of sittings they would have done per week, month or year. While on the other hand due to the global ‘war of talent’ most of the organizations now prefer to offer their executive directors and board of directors’ highly competitive flat or fixed monthly pay including benefits to gain: (1) their commitment, (2) loyalty, (3) be recognized as a powerful employer brand and (4) an employer of first choice in the executive labour market. The various macro-environmental factors that affect compensation will be discussed in the following section.

¹⁸⁹ Human Resources Institute of New Zealand (2018) Transfers & Promotions. Available from: https://www.hrinz.org.nz/Site/Resources/Knowledge_Base/Q-Z/Transfers_and_Promotion.aspx

9.7.2 Macro environmental factors affecting compensation

The business environment nowadays is highly dynamic due to the rapid changes in technology, the global economy and social trends happening on a daily basis. Therefore, the macro-environmental factors affecting the compensation of employees, executive directors and board of directors' compensation are depicted in Figure 9.3 below.

Figure 9.3 Macro-environmental factors affecting compensation



Source: Modified: (Taylor, 2003:6; Ferrell and Hirt, 2000:19; Hunter, 2002:114).

Figure 9.3 clearly point-out the various macro-environmental factors affecting compensation in organizations and these will be further discussed as follow:

9.7.2.1 'War for talent'

The shortages of highly specialized skills in both the local and global labour markets affect organizations during their recruitment, selection and compensation processes. Talent management has become a critical function of the: (1) human resources department, (2) nomination committees' of boards and (3) the governance committees' of boards as organizations now have to implement various talent retention strategies to attract and retain their top performers or talented employees, executive directors and board of directors'. Therefore, the 'war for talent' has forced many organizations globally to pay their highly skilled employees,

executive directors and board of directors' high salaries and benefits to keep them happy and willing to continue to work for the organization (Taylor, 2003:6).

9.7.2.2 Trade unions

The main aim of trade unions around the world is to perform collective bargaining with employers on behalf of their members on various issues relating to job lay-offs, adoption of technologies that result in job lay-offs of manual labour, remuneration rates increments, consistent improvement of working conditions, employee rights at the workplace and so on. In general, salary levels of employees in most of the labour markets in various countries are greatly influenced by the presence of the trade unions at the workplace.

9.7.2.3 Technology

Technological advancements in the field of computer science, telecommunications, transportation, automotive manufacturing systems, artificial intelligence, aerospace and so on have a great impact in the way organizations compensate their employees, executive directors and board of directors'. New developments in information, communication and technology (ICT) have made it possible for the Internet to exist as organizations now use websites to sell and advertise their products globally which has resulted in high sales revenue being generated¹⁹⁰ (Ferrell and Hirt, 2000:19). When organizations continue to enjoy high profits they are more likely to afford to pay their employees, executive directors and board of directors' competitive salaries and benefits. Therefore, technology influences compensation offered to employees, executive directors and board of directors' in the modern day organization.

9.7.2.4 Economic factors

When the economy of a country is growing at a steady fast rate many organizations thrive and as a result high profit margins are gained and these profit margins help the organization to pay its costs of labour. Economic factors such as inflation greatly influence pay rates during employer and trade union wage negotiations since inflation is one of the economic factors that is

¹⁹⁰ Ferrell, O.C. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: Irwin McGraw-Hill, p19.

commonly used to determine reasonable compensation rates of employees, executive directors and board of directors'. The continuous rising of prices of goods in an economy reduces the buying power of the money employees, executive directors and board of directors' earn therefore the lower level income earners will no longer be able to afford to buy basic foods and services such as medical care, water, electricity and so on (Hunter, 2002:115). Therefore, the economic factors of a country greatly influence compensation.

9.7.2.5 Competition

International trade has flourished in the global market for the past decades as countries have become borderless due to globalization (*use of the World Wide Web*). Organizations in the developed world are now competing with organizations in the developing world for international market shares¹⁹¹ (Ferrell & Hirt, 2000:82). Today many countries have signed economic trade agreements with powerful global trade bodies and inter-regional agreements in their regional trading blocs. The more competition an organization experiences in the local market the lower are its profit-levels which means that it will not be able to afford to pay employees, executive directors and board of directors' higher remuneration packages. In general the compensation of employees is divided into two types and this will be discussed in the following section.

9.8 Types of compensation

The employees', executive directors and board of directors' compensation is generally categorized into two types namely: intrinsic and extrinsic rewards. Intrinsic rewards will be further discussed as follows:

9.8.1 Intrinsic

In general *intrinsic rewards* refer to the indirect compensation the organization provides its employees for their employment services and they are popularly known as 'intangible rewards' (Victor and Hoole, 2017). The main aim of intrinsic rewards or intangible rewards is to enable employees, executive directors and board of directors to feel inspired, confident, enthusiastic,

¹⁹¹ Ferrell, O.C. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: Irwin McGraw-Hill, p82.

happy and highly motivated internally for much longer time periods at the workplace (Zeiger, 2018). Intrinsic rewards are psychological and these will be depicted in Figure 9.4 below.

Figure 9.4 The four intrinsic rewards



9.8.1.1 Recognition

The recognition of the executive directors and board of directors' must be a continuous activity that is done by the chairman of the board, both the governance and nominations committees since it is one of the intrinsic rewards the organization offers its executive directors and board of directors. Recognizing executive directors and board of directors at the workplace makes them feel appreciated and it also shows that their jobs or contributions are highly valued in the organization. For instance, the executive directors and board of directors recognition can be done via the following: (1) celebration dinner functions, (2) peer-to-peer recognition at the workplace, (3) 'director of the year' awards ceremony, (4) whenever the chairman of the board notices good behavior in the boardroom or board committees and they must simply say 'thank you' all the time to make the executive directors and board of directors feel proud of themselves and highly

motivated to repeat the desirable behaviour. Therefore, in this 21st century organizations that recognize good work performance of their executive directors and board of directors succeed in boosting their motivation and organizational commitment.

9.8.1.2 Career advancement opportunities

Most of the leading global organizations are well known for their effective succession planning programs that aim to grow and retain talent. Organizations now offer job promotions as a benefit since employees', executive directors and board of directors' are given more job responsibilities and rewards (*both monetary and non-monetary*). For example, the Chief Executive Officer or the Chief Operations Officer of the organization can be promoted by the nominations committee to occupy the job positions of a CEO and Chairman of the organization. Nowadays employees, executive directors and board of directors' who perform exceptionally well are rewarded with promotional opportunities to strongly encourage them to repeat their highly desirable work performance and further develop their skills and knowledge in the organization.

9.8.1.3 Independence

One of the most critical aspects of intrinsic rewards is the provision of greater workplace freedom or autonomy to employees as a non-monetary benefit. Generally the board of directors' are usually individuals with scarce educational qualifications and high expert knowledge in various career-fields which ultimately makes them eligible to be categorized as 'knowledge workers' in the labour market. Several studies have since discovered that knowledge workers place high value in gaining independence at work and this fact is also supported by a study that was carried-out by Kinnear and Sutherland (2000). According to a study by Kinnear and Sutherland (2000:106) titled '*Determinants of Organisational Commitment Amongst Knowledge Workers*' published in the *South African Journal of Business Management, Vol 31, No.3*. The main purpose of this study was to gain insight into what determines commitment to an organisation amongst knowledge workers. The data was collected by means of a survey of 104 knowledge workers from the financial services, information technology and science and technology sectors. The data was subjected to inferential and multivariate statistical analysis. *Research findings.* A total of 104 questionnaires were analysed out of the 180 questionnaires distributed to the six organisations targeted. The return rate of usable responses was 58% which

was higher than anticipated. The sample adequately reflected the knowledge worker population in South Africa as defined for the purposes of this research (Kinnear and Sutherland, 2000:106). In the study out of the ten most preferred retention strategies it was found that ‘freedom to plan and execute work independently’ was one of the top five preferred strategies by the knowledge workers (Kinnear and Sutherland, 2000:109). “The finding confirms that knowledge workers require freedom in planning and executing their work and progressive leadership which allows them to do things differently. Knowledge workers need space to act independently so as to apply their unique talents”¹⁹² (Kinnear and Sutherland, 2000:109).

9.8.1.4 Challenging and interesting work

In general employees, executive directors and board of directors who are offered an increased number of non-financial benefits at the workplace are often associated with the following characteristics: (1) increased morale, (2) increased innovativeness, (3) willingness to commit towards working for the organization for a much longer time period, (4) regularly communicate positive word-of-mouth information about the organization that it is a good employer, (5) consistently attain their set performance targets or goals, (6) often ‘*go the extra mile*’ to avoid all types of conflict in the boardroom in order to strengthen the board’s spirit of teamwork and many other characteristics. Furthermore, the ‘provision of challenging work assignments in your area of expertise’ is one of the effective intrinsic rewards that can be offered by an organization to its board of directors and executive directors since they are generally categorized as knowledge workers in the labour market (Kinnear and Sutherland, 2000:109). According to a study by Kinnear and Sutherland (2000:106) titled: *Determinants of Organisational Commitment Amongst Knowledge Workers* published in the *South African Journal of Business Management, Vol 31, No.3*. The main purpose of this study was to gain insight into what determines commitment to an organisation amongst knowledge workers. The data was collected by means of a survey of 104 knowledge workers from the financial services, information technology and science and technology sectors (Kinnear and Sutherland, 2000:106). The study findings revealed that out of the ten most preferred retention strategies by the knowledge workers it was found that

¹⁹² Kinnear, L. and Sutherland, M. (2000) *Determinants of Organisational Commitment Amongst Knowledge Workers. South African Journal of Business Management, Vol 31, No.3, p106-110*

the fourth most preferred retention strategy by knowledge workers was ‘challenging work assignments in your area of expertise’ (Kinnear and Sutherland, 2000:109). Many organizations can now make their workplaces much more interesting to employees, executive directors and board of directors due to technological developments such as virtual reality (VR), 3D, artificial intelligence software programmes, computer aided designing (CAD), robots and so on¹⁹³ (Davis, Aquilano and Chase, 2003:126). The extrinsic rewards offered by organizations to their employees will be discussed in-depth in the following section.

9.8.2 Extrinsic rewards

All forms of monetary benefits (*both monetary and non-monetary benefits*) that are offered to employees, executive directors and board of directors by their employers as an appreciation token for their time and skills provided to the organization over a certain period of time (*hourly, daily, weekly and monthly*) are referred to as *extrinsic rewards*.¹⁹⁴ Generally extrinsic rewards include: money/pay, bonus incentives, fringe benefits and so on^{195 196 197} (Sajuyigbe, A.S., Olaoye, B.O., & Adeyemi, M.A., 2013; Weatherly, R. L., 2002; Osa, 2014 cited in Victor and Hoole, 2017:2). Extrinsic rewards are divided into two types namely: monetary rewards and

¹⁹³ Davis, M., Aquilano, N. and Chase, R. (2003) *Fundamentals of Operations Management*. 4th Edition, New York, McGraw-Hill Incorporation, p120-129.

¹⁹⁴ Victor, J., & Hoole, C. (2017) The Influence of Organizational Rewards on Workplace Trust and Work Engagement. *SA Journal of Human Resource Management/SA Tydskrif vir Menslikehulpbronbestuur*, 15(0), a853. <https://www.doi.org/10.4102/sajhrm.v15i0.853>

¹⁹⁵ Osa, R.G. (2014). Monetary Incentives Motivates Employee’s on Organizational Performance. *Global Journal of Arts Humanities and Social Sciences*, 2(7), 61–69. Retrieved October 06, 2015, from <http://www.eajournals.org/wp-content/uploads/Monetary-Incentives-Motivates-Employee---s-On-OrganizationalPerformance.pdf>

¹⁹⁶ Weatherly, R.L. (2002) *Effects of External Rewards on Internal Motivation and Job Satisfaction*. Available from: <http://hdl.handle.net/2346/21930> Unpublished Master’s Thesis, Texas Tech University, Texas, USA

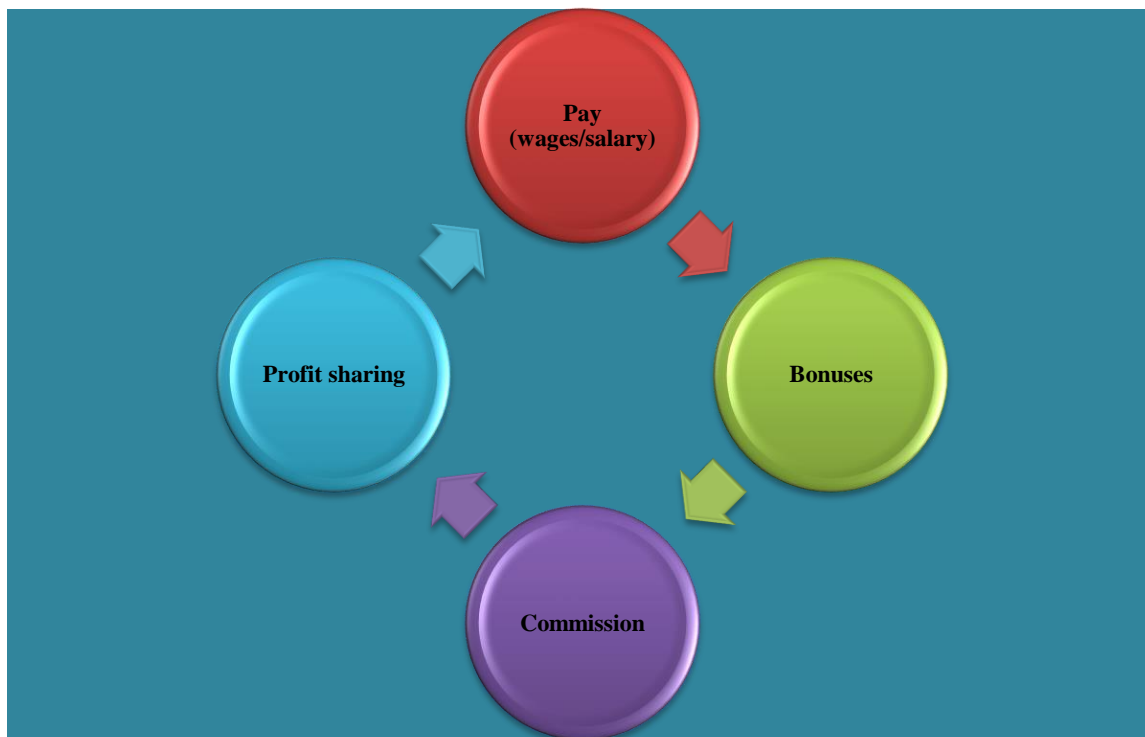
¹⁹⁷ Sajuyigbe, A.S., Olaoye, B.O., & Adeyemi, M.A. (2013). Impact of reward on employees performance in a selected manufacturing companies in Ibadan, Oyo state, Nigeria. *International Journal of Arts and Commerce*, 2(2), 27–32. Retrieved October 06, 2015, from <http://www.ijac.org.uk/images/frontImages/gallery/Vol. 2 No. 2/4.pdf>

employee benefits (Hamukwaya & Yazdanifard, 2014; Aktar, Sachu, and Ali, 2012 cited in Victor and Hoole, 2017:2). The monetary rewards are discussed in detail as follows:

9.8.2.1 Monetary rewards

Generally, the terms ‘monetary’ and ‘financial’ are interrelated therefore this concludes the fact that monetary rewards are any form of financial rewards that are offered to employees by their employers on a weekly, monthly or yearly basis as compensation. Employees are greatly motivated by money so that they continue to improve their performance levels. The different types of monetary rewards that can be offered by organizations today are depicted in Figure 9.5 below.

Figure 9.5 The four monetary rewards offered by organizations



Source: Modified: (Ferrell & Hirt, 2000:280).

As depicted by Figure 9.5 the four monetary rewards that are offered by organizations will be further discussed below.

9.8.2.1.1 Pay as depicted by Figure 9.5 refers to the money an employee, executive director and board of director receives for their service which can either be in the form of a fixed money inducement the organization pays its employees, executive directors and board of directors on a monthly basis (*known as a salary*) or pay can be calculated per hour and based on the level of output accomplished (*it is also known as hourly wages*).¹⁹⁸“What is *ordinary pay*? Ordinary pay is the gross wages or salary, prior to deductions such as PAYG tax, salary sacrifice and salary packaging items, paid or payable to the worker for work under an award or agreement (including a common law contract). If a worker ordinarily works weekends, or shift work, and gets penalty rates then those penalty rates will form part of the worker’s ordinary pay” (State Government of Victoria, 2020, <https://www.vic.gov.au/ordinary-pay>).

9.8.2.1.2 Bonuses refers to the extra cash payments given to employees, executive directors and board of directors on top of their usual weekly or monthly wages and salaries to motivate them to boost performance¹⁹⁹ (Ferrell & Hirt, 2000:280). Bonuses can be paid-out at the end of the year during the festive season or on a monthly basis and they are usually calculated as a certain percentage of the employee’s, executive director’s and board of director’s salary. For example, an employee who earns US\$35 000 a month could be awarded a monthly bonus of 5% therefore $US\$35\ 000 \times 0.05 = US\1750 per month or it can be multiplied by 12 months of the year and paid to him or her at the end of the year.

9.8.2.1.3 Commissions are not used by the majority of organizations but they are commonly used in certain industry sectors and generally organizations that want to promote their sales while simultaneously increasing their market share tend to use commission based pay as the only monetary reward for employees. A percentage of sales is used to calculate the commission. For example, 5% of US\$1 250 000 sales revenue = US\$62 500 worth of commission paid to the sales person.

¹⁹⁸ State Government of Victoria (2020) *Ordinary Pay*. Available from: <https://www.vic.gov.au/ordinary-pay> © Copyright State Government of Victoria [Accessed October 02, 2020] © Commonwealth of Australia 2018.

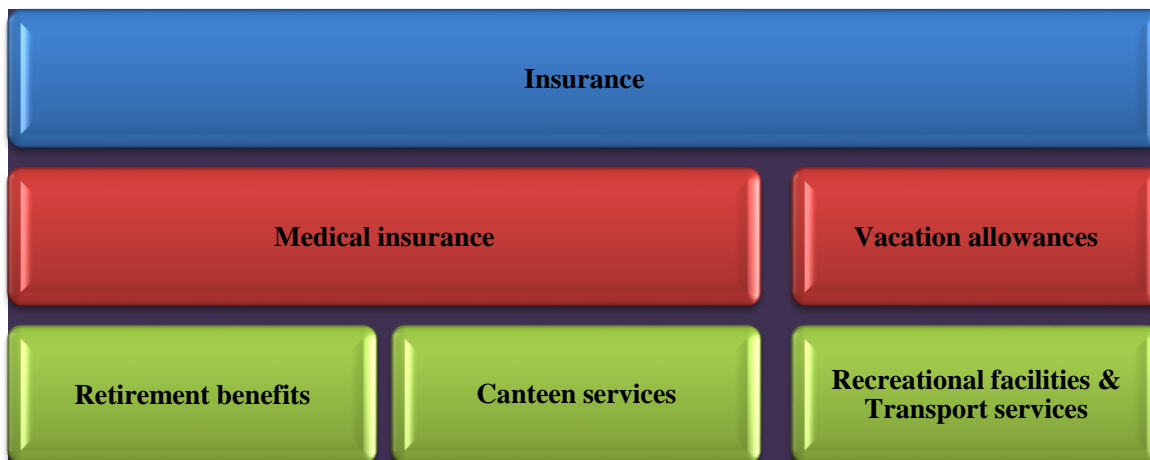
¹⁹⁹ Ferrell, O.C. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: Irwin McGraw-Hill, p280.

9.8.2.1.4 Profit sharing is another monetary reward component organizations nowadays offer their employees, executive directors and board of directors. ²⁰⁰Most of the organizations offer shares to employees, executive directors and board of directors through employee stock ownership plans (*ESOPs*). Global organizations often offer broad based stock option plans to enable them to establish an interrelation between employees', executive directors and board of directors' interests and the organization's interests. *ESOPs* are broad in order to allow organizations to promote loyalty, top performance and high profitability (Ferrell and Hirt, 2000:280). The various non-monetary benefits an organization can offer its employees, executive directors and board of directors will be covered in the following section.

9.8.2.2 Employee, executive director and board of director non-monetary benefits

Generally employee, executive director and board of director *benefits* refer to compensation that is given to employees after salaries and wages or incentive programs. Benefits can be based on the willingness of the organization and or as a legal requirement. The benefits that organizations can provide to employees', executive directors and board of directors' are depicted in Figure 9.6 below.

Figure 9.6 Six employee, executive director and board of director non-monetary benefits



Source: Modified: (Felman, 2018; Vinassa, 2003:22)

²⁰⁰ Ferrell, O.C. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: Irwin McGraw-Hill, p280.

Figure 9.6 clearly pointed-out the six non-monetary benefits an organization can offer its employees, executive directors and board of directors and these are further discussed as follows:

9.8.2.2.1 Insurance is a critical compensation benefit organizations should offer their employees, executive directors and board of directors. Many organizations offer employees insurance in the form of medical, life and accident insurance cover. For example, a life insurance policy of USD\$1million may need monthly contributions of USD\$350-\$500 per month. Accident or disability insurance covers are popular in large labour intensive organizations. Several large organizations nowadays offer their employees good life insurance benefits. The modern day organizations are now fully aware of the fact that workplace accidents can happen anytime (*whether an employee is on-duty or off-duty*) therefore in the event that an employee, executive director and board of director becomes disabled he/she will need to continue to earn an income through the disability insurance cover.

9.8.2.2.2 Health insurance is the most critical and popular non-monetary benefit offered to employees, executive directors and board of directors by organizations today. Basically *health insurance or medical aid* is a benefit that was formed to enable employees, executive directors and board of directors to have better access to high quality affordable medical care whenever needed and to keep the employees', executive directors and board of directors' wellbeing properly taken care of by the organization. ““*Health insurance* is a type of insurance coverage that covers the cost of an insured individual's medical and surgical expenses. In health insurance terminology, a clinic, hospital, doctor, laboratory, healthcare practitioner, or pharmacy that treats an individual is known as the "provider." The "insured" is the owner of the health insurance policy or the person with the health insurance coverage””²⁰¹ (Felman, 2018, <https://www.medicalnewstoday.com/info/health-insurance>). <meta name="robots" content="noindex, nofollow"> Republished from [What is Health Insurance?] by [Felman, A.] by permission of Medical News Today. It is important to point-out that some organizations today cover the full monthly payments of

²⁰¹ Felman, A. (2018) *What is Health Insurance?* Available from: <https://www.medicalnewstoday.com/info/health-insurance> <meta name="robots" content="noindex, nofollow"> Republished from [What is Health Insurance?] by [Felman, A.] by permission of Medical News Today

their employees', executive directors and board of directors' medical costs whilst others pay a significant proportion (*for instance they pay only 75% and the remaining 25% is paid-off by the employees, executive directors and board of directors themselves through their monthly salary deductions*). However, today talented employees, executive directors and board of directors with the much needed scarce skills now conduct job searches in the labour market specifically looking for employers who offer them attractive non-monetary benefits.

9.8.2.2.3 Vacation allowances refer to a period of time (*usually a specific number of days*) an employee, executive director and board of director is entitled to in order for him/her to be away from: (1) the workplace or (2) any work related activities, so that he/she may go for a paid vacation/holiday. Nowadays vacation allowances are one of the most popular employee, executive director and board of director benefits currently being offered by organizations today due to the current 'war for talent' for scarce skills in the global labour market. In addition vacation allowances help most of the organizations to easily attract talent in the labour market and simultaneously boost their employer brand image. In most of the organizations paid vacation/holiday allowances are usually offered to employees based on their job grade despite the fact that in some large global organizations all job grades in the organizational structure receive them. However, in some of the large organizations lower level employees tend to be offered '*paid domestic holiday*' allowances while top level executive directors and board of directors receive '*paid international holiday*' allowances. Holiday allowances help to provide an opportunity for organizations to show their employees, executive directors and board of directors that the organization greatly values their service and loyalty. Therefore today some organizations 'go the extra mile' by offering their employees vacation trips to fun and amazing domestic or international tourist destinations shown in Figure 9.7.

Figure 9.7 Some of the world’s leading holiday travel destinations for employee or board of director paid vacations



Source: Modified: (Wikipedia, 2019; <https://en.wikipedia.org/>).

For instance employees, executive directors and board of directors who are offered international vacation allowances by their organizations may opt to travel on a paid holiday trip to popular tourist destinations located in countries depicted in Figure 9.7. These include:

(1) **Zimbabwe** (*is home to the world’s famous Victoria Falls, 5 star hotels, art sculpture markets, restaurants, various wildlife nature reserves and the Zambezi River*). ““**Victoria Falls** (Lozi: *Mosi-oa-Tunya*, "The Smoke That Thunders") is a waterfall in southern Africa on the Zambezi River at the border between Zambia and Zimbabwe””, (World Waterfall Database, 2007 cited in Wikipedia, 2018), Wikipedia, 2018. This article uses material from the Wikipedia article **Victoria Falls**, https://en.wikipedia.org/wiki/Victoria_Falls which is released under the Creative Commons Attribution-ShareAlike 3.0 Unported License (view authors);

(2) **India** (*is Asia’s leading unquestionable economic, science, tourism and technology powerhouse and it is also rich in culture. India is also home to the beautiful city of Mumbai which is famous for its movie industry, 5 star hotels, restaurants, state-of-the-art airport and so on*). ““According to **United Nations**, as of 2018, Mumbai was the second most populous city in

India after **Delhi** and the seventh most populous city in the world with a population of almost 20 million.²⁰²²⁰³ Mumbai is home to three UNESCO World Heritage Sites: the Elephanta Caves, Chhatrapati Shivaji Maharaj Terminus, and the city's distinctive ensemble of Victorian and Art Deco buildings²⁰⁴²⁰⁵²⁰⁶ (United Nations, 2018; World Digital Library, 2017; Curzon, 2013 cited in Wikipedia, 2020. This article uses material from the Wikipedia article **Mumbai**, <https://en.wikipedia.org/wiki/Mumbai> which is released under the Creative Commons Attribution-ShareAlike 3.0 Unported License (view authors)²⁰⁷.

(3) **United States of America** (*is home to the New York City which is the most populous city in the USA and is famous for its 5 star hotels, museums, theatres, large urban park, state-of-the-art airport and so on.* ““**Arts.** New York City has more than 2,000 arts and cultural organizations and more than 500 art galleries²⁰⁸. **Performing arts.** Forty-one venues in Midtown Manhattan's Theatre District, each with at least 500 seats, are classified as Broadway theatres””), (Center for an Urban Future, 2005 cited in Wikipedia, 2019. This article uses material from the Wikipedia article **New York**, https://en.wikipedia.org/wiki/New_York_City which is released under the Creative Commons Attribution-ShareAlike 3.0 Unported License (view authors). A report by the Center for an Urban Future, published in 2015, found that New York City is home

²⁰² World Digital Library (2017) *British Government in India: The Story of Viceroy and Government Houses*. US Library of Congress. Available from: <https://www.wdl.org/en/item/16800/> [Accessed June 06, 2020]

²⁰³ “From [The World’s Cities in 2018, Booklet, https://www.un.org/en/events/citiesday/assets/pdf/the_worlds_cities_in_2018_booklet.pdf], by [United Nations]. ©United Nations [2018]. Reprinted with the permission of the United Nations.”

²⁰⁴ Curzon, G.N. *Complete book online – British Government in India: The Story of Viceroy and Government Houses*. Retrieved 22 March 2019.

²⁰⁵ Curzon, G.N. (2017) *Complete Book Online – British Government in India: The Story of Viceroy and Government Houses*. Available from: <https://www.wdl.org/en/item/16800> Retrieved 22 March 2019.

²⁰⁶ UNESCO (2010) *“The World Heritage Convention”*. Available from: <https://whc.unesco.org/en/convention/> UNESCO. *Archived from the original on August 27, 2016. Retrieved September 17, 2010.* ©UNESCO

²⁰⁷ Wikipedia (2020) *Mumbai*. Available from: <https://en.wikipedia.org/wiki/Mumbai> [Accessed June 06, 2020]

²⁰⁸ Center for an Urban Future (2005) *“Creative New York”*. Available from: https://www.nycfuture.org/images_pdfs/pdfs/CREATIVE_NEW_YORK.pdf [Accessed 2008, 01 2008]

to 4,224 arts and cultural nonprofit organizations and 1,384 gallery spaces²⁰⁹ (Forman, 2015, <https://nycfuture.org/research/creative-new-york-2015>). “Overall, New York City’s creative sector—which by our definition includes ten industries: advertising, film and television, broadcasting, publishing, architecture, design, music, visual arts, performing arts and independent artists—employed 295,755 people in 2013, seven percent of all jobs in the city. Employment in the sector is up from 260,770 in 2003, a 13 percent jump. Meanwhile, the city is now home to 14,145 creative businesses and nonprofits, up from 11,955 a decade ago (18 percent increase). The number of cultural organizations in New York City increased by 54 percent over the past decade. All of this growth has reinforced New York’s position as the nation’s creative capital” (Forman, 2015, <https://nycfuture.org/research/creative-new-york-2015>).

(4) **Canada** (*is home to the city of Toronto which is the capital city of the province of Ontario and it is the largest city in Canada. Today the city of Toronto is famous for its 5-star hotels, state-of-the-art airport, art galleries, botanic gardens and the Toronto Zoo.*^{210 211}“The Toronto Zoo has over 5,000 animals representing over 450 species and 10km of walking trails. Our Zoo is divided into seven zoogeographic regions as you will see on the Zoo map. We are dedicated to providing the animals in our care with the means to live long and enriching lives while connecting people to wildlife. Visitors may come across animal feedings (which could include the feeding of prey items), breeding activities or other natural behaviours while visiting the Zoo.” (Toronto Zoo Webmaster, MD, 2020, www.torontozoo.com). *In addition Canada is home to the world’s leading colleges and universities.* ““**Culture.** Toronto theatre and [performing arts](#) scene has more than fifty ballet and dance companies, six opera companies, two symphony orchestras and a host of theatres. **Tourism.** The [Royal Ontario Museum](#) is a museum of world culture and [natural history](#). The city also hosts the [Ontario Science Centre](#). **Economy.** Toronto is an international centre for business and finance. Generally considered the financial capital of Canada, Toronto has a high concentration of banks and brokerage firms on Bay Street, in the

²⁰⁹ Forman, A. (2015) Creative New York. Available from: <https://nycfuture.org/research/creative-new-york-2015> [Accessed 2020, 05 March]

²¹⁰ Torontozoo.com (2020) *About the Toronto Zoo*. Available from: <http://www.torontozoo.com/AboutTheZoo/> [Accessed 2020, 07 March]

²¹¹ Torontozoo.com (2007) “*About the Toronto Zoo*”. Archived from [the original](#) on September 11, 2007. Available from: <https://web.archive.org/web/20070911054227/http://www.torontozoo.com/AboutTheZoo/> [Accessed 2007, 11 October]

Financial District”)), (Wikipedia, 2019. This article uses material from the Wikipedia article **Toronto**, <https://en.wikipedia.org/wiki/Toronto> which is released under the [Creative Commons Attribution-ShareAlike 3.0 Unported License \(view authors\)](#),

(5) **United Kingdom** (*is home to the city of London. Today London is famous for its 5 star hotels, palaces, state-of-the-art airports, art galleries, botanic gardens such as the Royal Botanic Gardens, Kew and so on.* “**Economy.** London's [gross regional product](#) in 2018 was almost £500 billion, around a quarter of [UK GDP](#).²¹² London has five major business districts: the City, Westminster, Canary Wharf, Camden & Islington and Lambeth & Southwark. **Tourism.** London is one of the leading tourist destinations in the world and in 2015 was ranked as the most visited city in the world with over 65 million visits²¹³²¹⁴. It is also the top city in the world by visitor cross-border spending, estimated at US\$20.23 billion in 2015.²¹⁵ **Education.** A number of world-leading education institutions are based in London. In the 2014/15 [QS World University Rankings](#), [Imperial College London](#) is ranked joint 2nd in the world, [University College London](#) (UCL) is ranked 5th.²¹⁶”)), (United Kingdom Government Office for National Statistics, 2018; Mastercard, 2015; QS World University Rankings, 2014 cited in Wikipedia, 2019. This article uses material from the Wikipedia article **London**, <https://en.wikipedia.org/wiki/London> which is released under the [Creative Commons Attribution-ShareAlike 3.0 Unported License \(view authors\)](#),

²¹² United Kingdom Government Office for National Statistics (2018) *“Regional gross value added (balanced), UK: 1998 to 2018”*. Available from: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/regionaleconomicactivitybygrossdomesticproductuk/1998to2018/pdf> [Accessed 2018, 20 June] © Office for National Statistics, 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

²¹³ Mastercard (2015) *Mastercard Global Destination Cities Index Report 2015*. Available from: <http://www.masterintelligence.com/content/intelligence/en/research/reports/2015/mastercard-global-destination-cities-index-report-2015.html>

²¹⁴ Mastercard (2019) *Bangkok Tops Mastercard’s Global Destination Cities Index For The Fourth Consecutive Year*. Available from: <https://newsroom.mastercard.com/press-releases/bangkok-tops-mastercards-global-destination-cities-index-for-the-fourth-consecutive-year/> [Accessed 2020, 12 March]

²¹⁵ Mastercard (2015) *Mastercard GDCI 2015*. Available from: <https://newsroom.mastercard.com/wp-content/uploads/2015/06/MasterCard-GDCI-2015-Final-Report1.pdf>

²¹⁶ QS World University Rankings (2014) *“QS World University Rankings – Overall for 2014”*. Available from: <http://www.topuniversities.com/university-rankings/world-university-rankings/2014> [Accessed 2014, 13 November]

(6) **Australia** (*is home to the city of Melbourne. Melbourne is popular for its up market restaurants, 5-star hotels, botanic gardens and many other exciting tourist destinations.*

““**Melbourne** (/ˈmɛlbən/ (listen) *MEL-bərn*)^[note 1] is the capital and most populous city of the Australian state of Victoria, and the second most populous city in Australia and Oceania.²¹⁷

Culture. Often referred to as Australia's cultural capital, Melbourne hosts major events and festivals, and is a globally renowned centre of sport, music, theatre, comedy, art, architecture, literature, film and television.²¹⁸ Melbourne is also an important financial centre. In the 2018 Global Financial Centres Index, Melbourne was ranked as having the 15th most competitive financial centre in the world.²¹⁹” (ABS, 2019; Meld Magazine, 2016; Long Finance.net, 2019 cited in Wikipedia, 2019. This article uses material from the Wikipedia article **Melbourne**, <https://en.wikipedia.org/wiki/Melbourne> which is released under the Creative Commons Attribution-ShareAlike 3.0 Unported License (view authors),

(7) **Germany** (*is home to the city of Munich. The city of Munich is famous for its historic museums, 5-star hotels, museums, art galleries, beer festivals, botanic gardens & modern airport.*

““**Munich** (/ˈmjuːnɪk/ *MEW-nik*; German: *München* [ˈmʏnçən] (listen);²²⁰ Austro Bavarian: *Minga* [ˈmɪŋ(ː)ɐ]; Slovene: *Monakovo*; Latin: *Monachium*) is the capital and most populous city of Bavaria, the second most populous German federal state. (Metropolregion-Muenchen.eu, 2017 cited in Wikipedia, 2019. This article uses material from the Wikipedia article **Munich**, <https://en.wikipedia.org/wiki/Munich> which is released under the Creative Commons Attribution-ShareAlike 3.0 Unported License (view authors),

(8) **South Africa** (*is home to several magnificent cities namely, Johannesburg, Durban, Pietermaritzburg, Cape Town and Pretoria which are all famous for their historic museums, 5-*

²¹⁷ Australian Bureau of Statistics, 2019, 3218.0 - *Regional Population Growth, Australia, 2017-18*, viewed 21 April 2019, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3218.0> © Commonwealth of Australia 2019.

²¹⁸ Meld Magazine – Australia’s International Student News Website (2016) *“What makes Melbourne the cultural capital of Australia?”*. Available from: <https://www.meldmagazine.com.au/2016/07/melbourne-cultural-capital-australia/> [Accessed 2018, 26 March]

²¹⁹ Long Finance.net (2019) *“The Global Financial Centres Index 25”*. Available from: https://www.longfinance.net/documents/1914/GFCI_25_Report.pdf [Accessed 2019, 21 April]

²²⁰ Wikipedia.org (2019) *Names of European Cities in Different Languages: M–P#M*. Available from: https://en.wikipedia.org/wiki/Names_of_European_cities_in_different_languages:_M%E2%80%93P#M

star hotels & modern airports. In addition South Africa is home to Africa's leading universities and some of the world's leading universities. ““**Animals.** Numerous mammals are found in the Bushveld including lions, African leopards, South African cheetahs, southern white rhinos, blue wildebeest, kudus, impalas, hyenas, hippopotamuses and South African giraffes. A significant extent of the Bushveld exists in the north-east including Kruger National Park and the Sabi Sand Game Reserve, as well as in the far north in the Waterberg Biosphere. **Economy.** South Africa has a mixed economy, the second largest in Africa after Nigeria. It also has a relatively high gross domestic product (GDP) per capita compared to other countries in sub-Saharan Africa (US\$11,750 at purchasing power parity as of 2012). In August 2013, South Africa was ranked as the top African Country of the Future by *fDi Magazine* based on the country's economic potential, labour environment, cost-effectiveness, infrastructure, business friendliness, and foreign direct investment strategy.²²¹ **Science and technology.** Several important scientific and technological developments have originated in South Africa. South Africa has cultivated a burgeoning astronomy community. It hosts the Southern African Large Telescope, the largest optical telescope in the Southern Hemisphere. South Africa is currently building ²²²the Karoo Array Telescope as a pathfinder for the €1.5 billion Square Kilometre Array project.²²³ **Education.** The adult literacy rate in 2007 was 88.7%.²²⁴” (fDiIntelligence.com, 2013; UNESCO Institute for Statistics, 2019 cited in Wikipedia, 2019. This article uses material from the Wikipedia article **South Africa**, https://en.wikipedia.org/wiki/South_Africa#cite_note-safacts-12 which is released under the Creative Commons Attribution-ShareAlike 3.0 Unported License (view authors),

²²¹ "African Countries of the Future 2013/14". <http://www.fdiintelligence.com/Locations/Middle-East-Africa-Countries-of-the-Future-2013-14> fDiIntelligence.com. Retrieved 4 December 2013.

²²² Please note that the “Karoo Array Telescope” mentioned in this chapter is now complete, and is called MeerKAT, a precursor telescope for the SKA: Wikipedia, 2020. This article uses material from the Wikipedia article **MeerKat**, <https://en.wikipedia.org/wiki/MeerKAT> which is released under the Creative Commons Attribution-ShareAlike 3.0 Unported License (view authors)

²²³ "*SKA Announces Founding Board and Selects Jodrell Bank Observatory to Host Project Office*". https://skatelescope.org/news/2nd-april-news/SKA_2011_2_April_2011. Retrieved 14 April 2011.

²²⁴ "National Adult Literacy Rates (15+), Youth Literacy Rates (15–24) and Elderly Literacy Rates (65+)", ©UNESCO Institute for Statistics, <http://data.uis.unesco.org/?ReportId=210>

(9) **France** (*is home to the city of Paris*. ““The Paris Region had a [GDP](#) of €709 billion (\$808 billion) in 2017.²²⁵ Paris received 24.5 million visitors in 2018, measured by hotel stays, with the largest numbers of foreign visitors coming from the United States, the United Kingdom, Germany and China.²²⁶ It was ranked as the second most visited travel destination in the world in 2018, after [Bangkok](#).²²⁷ **Tourism**. According to the Paris Convention and Visitors Bureau, 393,008 workers in Greater Paris, or 12.4% of the total workforce, are engaged in tourism-related sectors such as hotels, catering, transport, and leisure.²²⁸ **Monuments and attractions**. The city's top tourist attraction was the Notre Dame Cathedral, which welcomed an estimated 12,000,000 visitors in 2018, but is now closed for renovation after the 15 April 2019 fire, and is not expected to reopen for several years. Second was the [Basilique du Sacré-Cœur](#) on Montmartre, with an estimated 11 million visitors. This was followed by the Louvre Museum (10.1 million visitors); [Centre Pompidou](#) (3.5 million visitors); [Musée d'Orsay](#) (3.3 million); The [National Museum of Natural History](#), France (2.4 million visitors); The [Chapel of Our Lady of the Miraculous Medal](#) (2 million visitors); the [Arc de Triomphe](#) (1.7 million visitors) and [Sainte-Chapelle](#) (1.3 million visitors)””²²⁹ ²³⁰ ²³¹(European Commission Eurostat cited in Web Archive.org, 2018; Paris Convention and Visitors Bureau, 2018; Mastercard, 2018; Paris

²²⁵ European Commission Eurostat cited in Web Archive.org (2018) *Regional GDP Per Capita in EU*. Available from: <https://web.archive.org/web/20190902020336/https://ec.europa.eu/eurostat/documents/2995521/9618249/1-26022019-AP-EN.pdf/f765d183-c3d2-4e2f-9256-cc6665909c80> [Accessed 2018, 06 March]

²²⁶ Paris Convention and Visitors Bureau (2018) *Key Figures 2018: Paris Convention and Visitors Bureau*. Available from: <https://en.parisinfo.com/practical-paris/paris-convention-and-visitors-bureau>

²²⁷ Mastercard (2018) *Big Cities, Big Business: Bangkok, London and Paris Lead the Way in Mastercard's 2018 Global Destination Cities Index*. Available from: <https://newsroom.mastercard.com/press-releases/big-cities-big-business-bangkok-london-and-paris-lead-the-way-in-mastercards-2018-global-destination-cities-index/> [Accessed 2019, 04 September]

²²⁸ Paris Convention and Visitors Bureau cited in Web Archive.org (2018) *"Tourism in Paris – Key Figures 2016"*. Available from: <https://web.archive.org/web/20180219151215/https://press.parisinfo.com/key-figure/key-figures/Tourism-in-Paris-Key-Figures-2016> [Accessed 2018, 18 February]

²²⁹ [a b c d](#) Key Figures 2018: Paris Convention and Visitors Bureau

²³⁰ Paris Convention and Visitors Bureau (2018) *Key Figures 2018: Paris Convention and Visitors Bureau*. Available from: <https://en.parisinfo.com/practical-paris/paris-convention-and-visitors-bureau>

²³¹ Paris Convention and Visitors Bureau (2020) *Key Figures*. Available from: <https://press.parisinfo.com/key-figures> [Accessed 2020, 13 March]

Convention and Visitors Bureau cited in Web Archive.org, 2018 cited in Wikipedia, 2019. This article uses material from the Wikipedia article **Paris**, <https://en.wikipedia.org/wiki/Paris> which is released under the [Creative Commons Attribution-ShareAlike 3.0 Unported License \(view authors\)](#),

(10) **Switzerland** (*is home to the city of **Zürich**. is famous for its 5 star hotels, museums, theatres, state-of-the-art airport and so on.* ““**Zürich** ([German](#): Zürich; [French](#): Zurich; [Italian](#): Zurigo; [Romansh](#): Turitg) is the [largest city](#) in [Switzerland](#) and the capital of the [canton of Zürich](#). Zürich is a hub for railways, roads, and air traffic. Both [Zurich Airport](#) and [railway station](#) are the largest and busiest in the country. The official language of Zürich is [German](#),^{232[a]} but the main spoken language is the local variant of the [Alemannic Swiss German](#) dialect, [Zürich German](#). **Economy**. In the 2017 [Global Financial Centres Index](#), Zürich was ranked as having the 11th most competitive financial center in the world, and second most competitive in Europe after [London](#).^{233””} (Long Finance.net, 2017 cited in Wikipedia, 2019. This article uses material from the Wikipedia article **Zürich**, <https://en.wikipedia.org/wiki/Zurich> which is released under the [Creative Commons Attribution-ShareAlike 3.0 Unported License \(view authors\)](#),

9.8.2.2.4 Retirement benefit encompasses pension schemes that enable the employees, executive directors and board of directors of the organization to continue to earn an income when they retire from working for the organization because of age or disability. In general retirement monthly payments are provided to the employees, executive directors and board of directors over the remaining years of their natural life and in certain countries if they suddenly die the money may be given to their living spouse or widow and or immediate family members over a specific

²³² a. “The official language in any municipality in German-speaking Switzerland is always German. In this context, the term 'German' is used as an umbrella term for any variety of German. So, according to law, you are allowed to communicate with the authorities by using any kind of German, in written or oral form. However, the authorities will always use [Swiss Standard German](#) (aka the Swiss variety of [Standard German](#)) in documents, or any written form. And orally, it is either *Hochdeutsch* (i.e., Swiss Standard German or what the particular speaker considers as *High German*), or then it depends on the speaker's origin, which dialectal variant (s)he is using” (Wikipedia, 2019. This article uses material from the Wikipedia article **Zürich**, <https://en.wikipedia.org/wiki/Zurich> which is released under the [Creative Commons Attribution-ShareAlike 3.0 Unported License \(view authors\)](#),

²³³ "The Global Financial Centres Index 21" (PDF). *Long Finance.net*. March 2017. Archived from *the original* (PDF) http://www.longfinance.net/images/gfci/gfci_21.pdf on 11 June 2017.

period of time. *Retirement* is defined as the voluntary exit from one's workplace, career or job position as a result of the following reasons: (1) old age, (2) ill-health, (3) the need to enjoy life and rest for the last remaining years of their lives²³⁴ ²³⁵(Feldman, 1994 cited in Snyman, van der Berg-Cotzee and White, 2017:204). Generally in certain countries employees can have around 4% - 12% or more of their monthly pay income deducted and be paid towards their pension plan or scheme and this varies from country to country. Generally the Pensions Act or Laws of any country often govern all pension schemes.

9.8.2.2.5 Canteen services are still one of the most popular non-monetary benefits that can be offered to employees, executive directors and board of directors by the organization. A canteen can be defined as a restaurant or food outlet that is located inside the organization's premises that offers high quality and healthy food services to employees, executive directors and board of directors. Canteen services can be provided by the organization in the form of an in-house canteen facility or through the use of external catering organizations that can be hired to provide healthy food and refreshments. In some of the organizations employees, executive directors and board of directors are required to pay the full price for their food and refreshments while in other organizations employees, executive directors and board of directors pay a discounted price or they are offered the canteen services free of charge (cost to the organization) therefore this benefit greatly depends on the food provision policies of the organization. Food services help to maintain the employees', executive directors and board of directors' balanced nutrition and it also allows them to focus on their work instead of leaving the workplace to go and eat at home which consumes a lot of time.

9.8.2.2.6 Recreational facilities can be in the form of nurseries, swimming pools, golf courses, spars, gyms, football and tennis pitches. Workplaces are now diverse than during 'the old days about 50 – 100 years ago' when they were entirely male dominated and women were less career orientated than they are nowadays. Several global organizations nowadays provide their

²³⁴ Snyman, I., van der Berg-Cotzee and White, J.G. (2017) Planning for Financially Independent Retirement. *South African Dental Journal* Vol 72(5), p204.

²³⁵ Feldman, D.C. (1994) The Decision to Retire Early: A Review and Conceptualization. *Academy of Management Review*. 1994; 19(2):285-311.

employees, executive directors and board of directors with excellent recreational facilities (*such as child day care centres for working mothers*). Some organizations provide gyms, football and tennis pitches to their employees, executive directors and board of directors to encourage their physical fitness and relieve their work and personal life stress. Sports help organizations to encourage team building in general (Vinassa, 2003:22).

9.8.2.2.7 Transport services is one of the non-monetary benefits that can be offered to employees, executive directors and board of directors by an organization. An organization can arrange transport that helps it to commute its employees, executive directors and board of directors from their homes or from certain designated physical locations where all employees, executive directors and board of directors gather and then they are all transported at once by the company vehicle to and from work on a daily basis. The provision of transport services is one way an organization helps its human resources to arrive at work on-time and avoid stressing about transport when going or coming back from work. Furthermore, some organizations go a step further when it comes to looking after the basic needs of their human resources (*employees, executive directors and board of directors*) by providing them with company vehicles they can use for transport purposes in both their personal/working life as a token of appreciation for their employment services. The following section will cover all the aspects that are related to compensation governance.

9.9 Compensation governance

²³⁶According 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

²³⁶ Governance Professionals of Canada (2018) *Compensation Governance*. Available from;

<https://gpcanada.org/compensation>

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
- 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 information²³⁷ (Governance Professionals of Canada, 2018, <https://gpcanada.org/compensation>).

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

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

²³⁷ Governance Professionals of Canada (2018) *Compensation Governance*. Available from; <https://gpcanada.org/compensation>

According to the principles:

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

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 company²³⁸ (Governance Professionals of Canada, 2018, <https://gpcanada.org/compensation>). The conclusion of this chapter will be discussed in the following section.

9.10 Conclusion

Nowadays compensation management is one of the most effective methods an organization can use to retain its talented executive directors and board of directors and boost their job satisfaction levels. On the other hand compensation governance helps to influence employees', executive directors and board of directors' motivation and performance. The main objective of

²³⁸ Governance Professionals of Canada (2018) *Compensation Governance*. Available from; <https://gpcanada.org/compensation>

compensation management in an organization is to ensure internal and external equity of employees', executive directors and board of directors' remuneration rates. Today the compensation activities of organizations are affected by various macro and micro environmental forces. The governance of both the executive directors' and board of directors' compensation has become one of the key responsibilities of the board chairman and the remuneration committee including the organization since it must be carefully guided by the following principles: transparency, ethics, high performance and good corporate governance.

9.11 Review questions

(1) Define the following terms: remuneration, compensation and compensation management?

Outline the objectives of compensation?

(2) Explain who is responsible for managing the compensation of the board of directors? Discuss the characteristics that help to identify an effective compensation program?

(3) Identify the techniques used to determine compensation. Describe the Macro and Micro environmental factors affecting pay?

(4) Outline and explain the different types of compensation?

(5) Discuss compensation governance in-depth?

Chapter 10: Training & development of the board of directors

After reading this chapter you should be able to:

- Define the following terms: training and development. List the objectives of training and development of the board. Explain who is responsible for the training & development of the board.
- Highlight the benefits of training and development. Describe the methods of training. Discuss in-depth a training strategy.
- Describe in-depth board training policies. Explain in-depth the board training process.
- Explain the pre-requisites for effective training. Describe the various limitations to effective training.
- Identify the useful tools and aids for conducting effective training.

10.1 Introduction

Nowadays most of the organizations have adopted a new principle of investing more financial resources into the training and development of their employees, executive directors and board of directors so that they produce the much needed critical skills they need to be effective or efficient. Employees that are adequately trained are more likely to produce high quality work results and better serve the organization's customers²³⁹ (Pearce and Robinson, 2009). The recruitment and selection process if properly managed will enable the organization to hire appropriately qualified and skilled employees, executive directors and board of directors. In general it is critical for the human resources management function, the chairman of the board and the board's standing committees (*such as the nominations, governance and remuneration committees*) to be aware of the fact that today employees, executive directors and board of directors can be hired by the organization with their highly valid skills and qualifications but

²³⁹ Pearce, J.A and Robinson, R.B. (2009) *Strategic Management, Formulation, Implementation and Control*. Boston: McGraw-Hill/Irwin, p165 & p335.

within a few years or decades their skills become outdated and they will need to learn some new concepts, processes, systems, strategies including the latest technical aspects of their jobs. Therefore, board training is one of the critical activities that is used to ensure that the executive directors' and board of directors' current skills remain up-to-date with the industry standards and latest innovations. A common phenomenon about training is that if it is not aligned to both the executive directors' and board of directors' and organization's objectives the skills or the knowledge the executive directors and board of directors will learn tend to become inapplicable in the organization. "Whilst there is no single definition of *organisational development* (OD), it is commonly known to be the practice of changing people and organisations for positive growth. In practice, OD can take on many forms, and typical OD activities can include some of the following: team building, organizational assessments, career development, training, e-learning, coaching, innovation, leadership development, talent management and change management"²⁴⁰ (Australia HR Institute, 2018, www.ahri.com.au). Training and development have several definitions and these will be covered in the following section.

10.2 Definition of terms

Training can be defined as an instructor-led human resources management activity that focuses on the sharing of knowledge, skills and character to an individual or group of people in order to assist them to enhance their job performance and productivity levels at the workplace^{241 242} (Manpower Services Commission, 1981; Masadeh, 2012:63). On the other hand *training* itself can be defined as a learning process that can be conducted 'on-the-job' and or 'off-the-job' in

²⁴⁰ Australia HR Institute (2018) *Organizational Development*. Available from: <https://www.ahri.com.au/assist/organisational-development>

²⁴¹ Masadeh, M. (2012) Training, Education, Development and Learning: What is the Difference? *European Scientific Journal* Vol 8(10), p63-65.

²⁴² Manpower Services Commission (1981) *Glossary of Training Terms*. London: HMSO

²⁴³ Manpower Services Commission (1981) *Glossary of Training Terms*. London: Department of Employment now the Department for Work and Pensions. Available from: <https://www.gov.uk/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

order to directly improve the performance of the trainee in performing their job related duties (Masadeh, 2012:63). Alternatively *development* refers to activities leading to the acquisition of new knowledge or skills for purposes of personal growth (Sandweiss and Lewin, 2004:44). A well designed and detailed training and development program helps the organization to easily empower its human resources with planned knowledge, skills and attitudes that are vital for attaining the organization's goals. There are several objectives that an organization's training and development activity aims to achieve in both the short and long-term and these are discussed in the following section.

10.3 Objectives of training and development of the board

Training mainly aims to enable the employees, executive directors and board of directors to learn new knowledge and discover new capabilities that are usually highlighted in training programs so that they may implement their newly acquired knowledge in their day-to-day work activities. According to a published study in the *Employment Relation Today* by Sandweiss and Lewin (2004:44) in-depth interviews with 11 part-time MBA students were conducted. The study was about employee retention and in the study training and development was mentioned by the MBA students during the interview as a factor that would increase their tenure in an organization. "Interviewees had much to say about the ways new employers could attract them. First, they wanted exposure to new opportunities. For the scientist, it was a top notch management training programme. Generally they would jump to an employer who offered exposure to pursuits that had eluded them up to now. As a corollary to wanting exposure, these interviewees were attracted to employers who could provide them with more responsibility and learning"²⁴⁴ (Sandweiss and Lewin, 2004:44). This helps to prove that training and development is critical in every organization and is valued by talented employees', executive directors and board of directors'. Board training and development is used for various aims and these include:

- To help trigger quick, analytical and decisive thinking in executive directors and board of directors' as this often results in most of the organization's problems being easily resolved,

²⁴⁴ Sandweiss, D. and Lewin, D. (2000) Interviews With Part-Time MBAs Point the Way for Retaining Executive Track Managers. *Employment Relationship Today, Spring Volume*, p30-46.

- To entrench the culture of ethical behavior amongst the executive directors and board of directors,
- To entrench a culture of adhering to the set rules of good corporate governance amongst the executive directors and board of directors,
- To ensure that the current executive directors and board of directors' in the organization are consistently kept abreast of the new latest skills, knowledge and concepts so that they may easily cope with changes in the micro and macro business environment,
- To empower executive directors and board of directors' with in-depth knowledge and technical skills required to effectively serve the organizations internal and external stakeholders in such a way that helps to guarantee the current and long term financial stability of the organization through increased sales revenue, entering new domestic or foreign markets, upholding the basic principles of ethics and good corporate governance,
- To provide the organization with well educated, highly productive and skilled executive directors and board of directors' who are able to improve the organization's current strategic planning, oversight, corporate image and market position through attaining high quality work results,
- To help enhance the organization's image, employer brand and employer of choice status in the global market through the consistent provision of ethics and corporate governance training to executive directors and board of directors' so that they can improve their work ethics, commitment, customer service, discipline and social responsibility programs,
- To help the organization to effectively educate its newly appointed executive directors and board of directors' to learn about the organization's boardroom activities, systems, processes, products, stakeholders, services, organizational culture, innovations, operating history and mission. The parties responsible for board training in an organization will be highlighted in the following section.

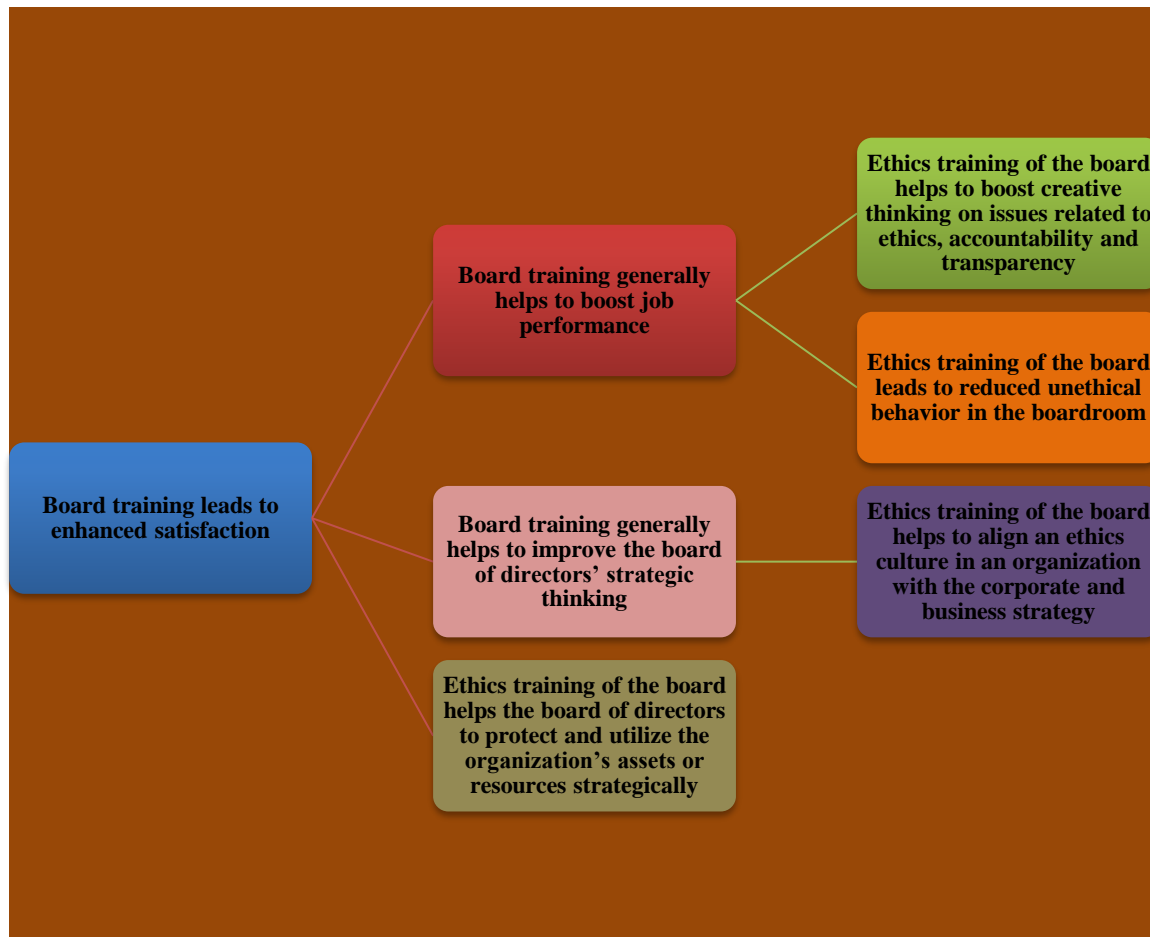
10.4 Who is responsible for the training & development of the board?

Board training is a critical activity that must be continuously carried-out by the governance committee and generally effective governance committees are often comprised of at least one or two human resources management experts/directors that help the board to design effective up-to-date board training programs. “*The Governance Committee* is charged with the care and feeding of the board itself. The responsibilities assigned to this committee vary with each organization. As a general rule, the Governance Committee would be responsible for board recruitment, orientation, self-assessment, continuing education, and board management” (Johnson, 2015, <https://www.asaecenter.org/>). On the other hand in some of the organizations where the governance committee does not exist either the *nominations committee* or the *remunerations committee* is usually delegated the responsibility of handling all board training activities by the board since these two standing committees’ main purpose is to continuously administer all people and welfare related issues of the board. Generally the consistent learning and development of the board can only be achieved via effective board training. It is important to note that training and development offers various benefits to the organization and its employees. Some of the benefits of training and development in an organization will be discussed in detail in the following section.

10.5 Benefits of training and development

There are numerous benefits that can be enjoyed by an organization and its employees through effective training. The benefits of training and development are depicted in Figure 10.1 below.

Figure 10.1 The seven benefits of training and development



Source: Modified: (Wagner, 2000 cited in Jehanzeb and Bashir, 2013:246; Shaw, 2018)

Figure 10.1 clearly highlighted the seven benefits of board training that an organization can enjoy and these will be further discussed as follows:

10.5.1 Board training leads to enhanced satisfaction

Generally training results in enhanced employee, executive director and board of director satisfaction since this helps to increase the organization's reliability and furthermore, the employees, executive directors and board of directors will be able to identify that their employer is investing financial resources in their skills development which will later on promote their future career growth or success (Wagner, 2000 cited in Jehanzeb and Bashir, 2013:246). Organizations that are willing to spend their financial resources on their employees', executive director and board of directors' training and development often succeed in boosting their morale,

job satisfaction and organizational commitment while on the other hand creating more value for the work they conduct (Wagner, 2000 cited in Jehanzeb and Bashir, 2013:246).

10.5.2 Board training generally helps to boost job performance

Board training assists in improving job performance by the executive directors and board of directors at the workplace and it also enables board of directors to learn new skills. In general through training & development organizations enormously improve their job performance even though the results of training vary based on the training method and the task being trained. One of the benefits of training in an organization is that it leads to the employees, executive management and the board of directors' achieving high productivity or output levels (Shaw, 2018).

10.5.3 Board training generally helps to improve the board of directors' strategic thinking

Therefore, *strategic thinking* refers to the ability of the board of director to know under what circumstances or a particular time that is appropriate to use a specific knowledge or skill without negatively affecting the organization's goals, ethics, corporate governance principles, profitability and objectives.

10.5.4 Ethics training of the board helps the board of directors to protect and utilize the organization's assets or resources strategically

An ethically trained board of director is more likely to be a disciplined individual in the organization and they are more likely to conduct their fiduciary duties in a responsible manner. Board of directors with adequate training in ethics and compliance practices tend to be more cautious when performing their daily duties at the workplace and they usually first conduct their due diligence. This is done before using the organization's scarce resources or assets in order to avoid wastage costs.

10.5.5 Ethics training of the board helps to boost creative thinking on issues related to ethics, accountability and transparency

When board of directors receive ethics training they often boost their reasoning and they become more creative in generating useful ideas on topics related to ethics, accountability, honesty and transparency. In general when innovative thinking is ignited in business leaders new viable ideas

are consistently generated to help solve the organization's problems identified in the boardroom cost effectively. New policies, codes of ethics/conducts and principles or values statements that help to guide senior management and employees on how to deal with ethics related issues in an organization help to highlight the positive results of effective ethics training and creative thinking of the board of directors as they play a crucial role in developing these policies using their newly acquired ethics training knowledge.

10.5.6 Ethics training of the board leads to reduced unethical behavior in the boardroom

In general board of directors and senior management often make the mistake of assuming that a code of ethics is the solution to ethical dilemmas in an organization and all matters related to ethics must be solved by opening the code of ethics/conduct. Indeed it is true that codes help to solve ethical problems but in certain instances a decision must be made based on the concept of 'right or wrong or morals' entrenched within an individual in order to guide the organization in the right direction. When board of directors receive regular ethics training they are empowered to become champions in ethics knowledge, philosophy, principles and values to the extent that an ethics culture is naturally embedded in their working life thereby reducing any form of unethical behavior in the boardroom. Highly functional boardrooms have zero to none occurrences of unethical behavior in the boardroom.

10.5.7 Ethics training of the board helps to align an ethics culture in an organization with the corporate and business strategy

Board of directors when they receive ethics training they acquire in-depth new knowledge about the advantages of ethical practices in an organization and how an ethics culture can help to propel the organization towards achieving its long term vision or goals. When board of directors understand the goals of ethics training they are much better able to support or commit to the ethics program and furthermore initiate a process of aligning the organization's ethical practices and standards with either the business strategy or corporate strategy. The following section will cover the different methods of training.

10.6 Methods of training

In general there are two types of training namely: (1) on-the-job and (2) off-the-job. The type of training that will be covered in the next section is on-the-job training method.

10.6.1 On-the-job training

On-the-job training occurs when informal training is conducted and one of its most significant characteristic is that trainees receive their new knowledge or skills whilst on-the-job. Today it is a very popular method of job training used by many organizations around the world. There are several advantages of on-the-job training and these are discussed in the next section.

10.6.1.1 Advantages of ‘on-the-job’ training

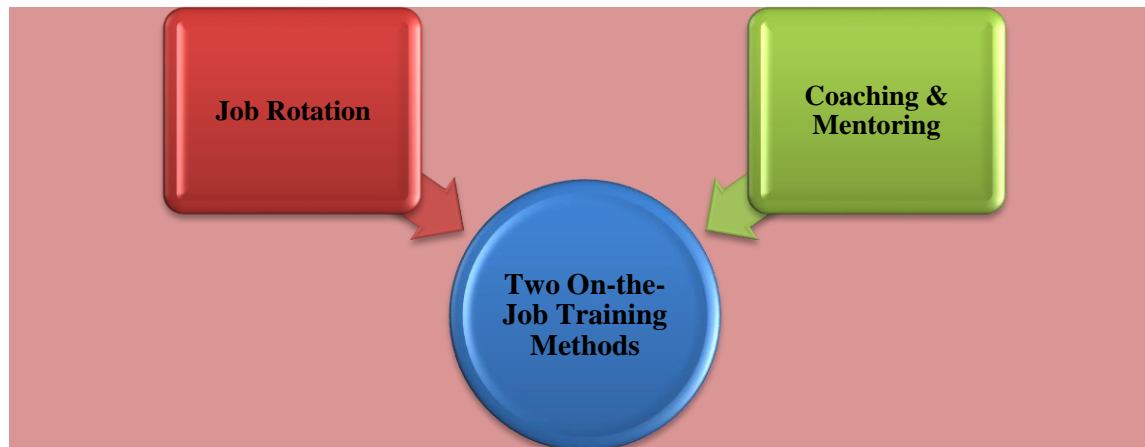
- The employee is quickly introduced to the new methods of doing things therefore their newly acquired skills are quickly reinforced in their day-to-day work activities because learning is done on the job,
- It is an easier way of learning a skill by simply observing and imitating the trainer,
- The employee is often relaxed and a free environment is created since the training is carried-out in an informal way thus this also enables the employee to increase their focus on achieving their expected training goals and creative thinking,
- It is a cheaper way of performing training because no new tools or machinery is needed other than what is normally used every day at the workplace,

The two on-the-job board training methods that are used by organizations nowadays will be covered in the following section.

10.6.1.2 On-the-job training methods

There are many methods used by on-the-job training as a result of the rapidly advancing technologies and in this chapter only two methods of conducting board training on-the-job will be discussed. These are depicted by Figure 10.2 below.

Figure 10.2 Two methods of conducting board training ‘on-the-job’



Source: Modified: (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz).

As previously depicted in Figure 10.2 the two on-the-job board training methods that can be used by an organization include the following:

- **Job rotation** - generally *job rotation* refers to the movement of an employee from job to job and it is important to note that in the context of board of directors it can be done by moving each board member from one standing or adhoc committee to another on a regular basis so that they can learn new skills. Most management training programs use job rotation due to the fact it is a quick way of reducing boredom amongst employees or board of directors which is mainly caused by the high repetition of work tasks.
- **Coaching and mentoring** - one of the most effective methods of board training is executive coaching and mentoring. The board chairman of an organization can offer training in the form of mentorship related to the roles and duties of a board to a newly appointed board of director (*for instance someone who has never been a board member before in their working life*) ‘on-the-job’ for a specific period of time. According to the Human Resources Institute of New Zealand (2018) coaching and mentoring may use the same skills and approach. ‘Coaching’ will be contracted to a specific term – which can be extended. ‘Mentoring’ is often a longer term relationship. A *Mentor* will most likely be in the same profession, sometimes in the same organization, and usually an experienced practitioner who has already walked the path the Mentee is now walking. *Coaching* does not include providing advice - rather the focus is on the

coachee's own thinking. *Mentoring* will include telling - or offering advice, at times. Coaching - relationships are contracted for specific periods of time, sessions can be more structured in nature and meetings can be scheduled on a regular basis, focused on developing strengths and making sought after changes – useful in talent development, change management and seeking specific solutions to professional challenges, coaching does not require the coach to have direct experience of their client's formal occupational role - although it is expected that they will have a sufficient understanding of the business or organizational sphere they are operating in²⁴⁵ (Human Resources Institute of New Zealand, 2018). In general coaching can be done at all levels of the organizational structure and the most critical ingredient to its effectiveness is the coach's level of knowledge and expertise to properly educate his or her subordinates. *Mentoring* is a one-on-one process done by a person with high levels of knowledge and expertise in a certain area who assists other junior employees or board members to learn and nurture new skills and knowledge at the workplace that are necessary for their career progression and development. There are various off-the-job methods of training that can be used in board training an organization and these will be discussed in the following section.

10.6.1.3 'Off-the-job' training

In general any form of job training that is done at a site away from the workplace whilst the employees, executive directors and or the board of directors are not working is referred to as *off-the-job training*. In addition, off-the-job training puts more emphasis on learning than the carrying-out of the job tasks by the trainee. The advantages that are offered by off-the-job board training are discussed in the following section.

10.6.1.4 Advantages offered by 'off-the-job' board training

The advantages offered by 'off-the-job' board training include the following:

- Traditionally 'off-the-job' board training is often carried-out by the board of director training experts and highly skilled professionals,

²⁴⁵ Human Resources Institute of New Zealand (2018) *Coaching*. Available from: https://www.hrinz.org.nz/Site/My_HR_Career/Coaching/What_is_Coaching.aspx

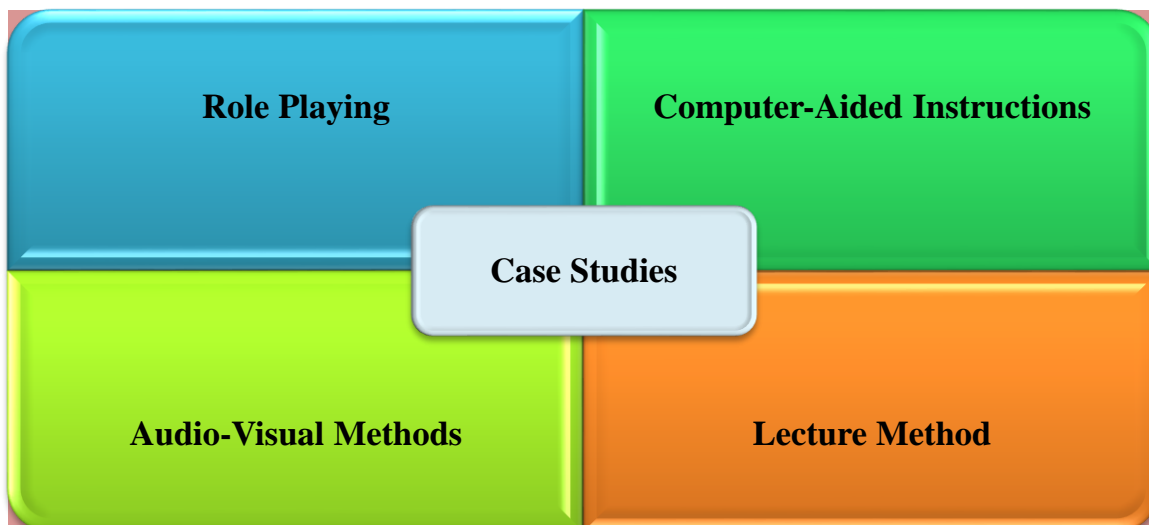
- Generally ‘off-the-job’ board training helps the executive directors and the board of directors to acquire new skills, knowledge and qualifications,
- In general ‘off-the-job’ board training programs offer well structured and planned training objectives so that the board of directors can consistently receive applicable, relevant skills and knowledge,
- Generally ‘off-the-job’ board training offers board of directors a new environment to learn new skills which help to reduce work-related stress or distractions that might affect them to learn properly,

The following section will discuss in-depth the various off-the-job board training methods that are used by organizations.

10.6.1.5 ‘Off-the-job’ training methods

In general most of the effective board training programs in organizations use common off-the-job training methods. Organizations can use various off-the-job training methods to develop the skills and knowledge of their board members on a regular basis. Some of the common off-the-job board training methods that can be used by an organization are depicted in Figure 10.3 below.

Figure 10.3 The five ‘off-the-job’ board training methods



- **Role playing** - therefore, with *role playing* the trainees are given the chance to role play similar real life scenarios connected to their learning concept where they can apply their training knowledge. Often the trainer informs the trainees about a particular problem situation and the trainees are supposed to act or play the roles of the characters identified in the problem situation as described by the trainer. Role playing helps to create a free conducive learning environment that allows creative thinking, open communication and it enables the trainees to experience training using an imaginary real life scenario.

- **Case studies** - Generally with *case studies* the trainer provides the trainees with a typical workplace scenario or problem and instructs them to analyze and give their own conclusions based on the information provided by the training instructor. Case studies are carried-out to achieve the following: (1) challenge employees' reasoning capabilities, (2) enhance the trainees' decision-making and problem solving skills whilst using limited amounts of factual information. In general case studies are more often used at university lectures and they help to provide a much cheaper way of training employees or the board of directors to boost their creative thinking capabilities.

- **Computer-aided instructions** - This form of training makes use of information, communication and technology (ICT) related technologies such as computers and the Internet. Employees or the board of directors can now receive their training and or training material through using computer software programs and online education programs for instance podcast, Internet voice & video conference calling, popular Internet social media chat platforms, email, the organization's intranet and websites. Generally, the Internet has become a sudden popular vital training method due to the fact that it offers learners audio-visual benefits accompanied by interactive text and graphics. In addition the Internet generally has a plethora of freely available digital library resources that can be found using different search engines, e-learning tools and so on.

- **Audio-visual methods** - Every training program greatly benefits from the use of audio-visual aids due to the fact that when employees or the board of directors visualize images and sounds they easily understand the concepts being presented to them and they are more likely to remember the newly learnt information over a long period of time. Therefore, audio-visual methods assist in encouraging the process of training by enabling the trainees to improve their

concentration levels. *Audio-visual* tools that can be used to train employees or the board of directors include: films, Microsoft PowerPoint slide presentations, video tapes, podcasts, Internet video conference calling workshops and so on.

- **Lecture method** - Today lectures can now be carried-out using live internet web camera broadcasting, video recordings, oral presentations, audio-recordings and so on. One of the main advantages of lectures is that they help the organization to teach a large group of trainees simultaneously and they are also time-saving. The *lecture method* is whereby employees or board of directors are trained about a specific theoretical subject topic in a classroom or room which offers a learning environment with one person talking (*the trainer*) and communication is mainly one way most of the time despite the fact that it may become two way communication later on during class discussions with the trainer. Lectures are usually carried-out at a college, university or at professional training centres. An organization needs to have a training strategy in order to successfully carry-out training and this will be covered in the next section.

10.7 Training strategy

In general good training strategies help organizations to develop strong organizational capabilities through the use of effective training programs. Today there are many organizations based in many developed and developing countries that have good training strategies. Training is concerned with clearly pointing-out the training priority needs of an employee or a board of director so that his or her areas of weaknesses may be addressed by the training. Therefore, it is important for the governance/nominations committee to ensure that all the required support and resources that are considered to be vital in order for the board of director to receive adequate training are provided on time so that the board member's personal training objectives are met. It is essential that the training strategy must be flexible to cater for the changes that occur in the organization and in the macro-external business environment. Generally there are various stages that are followed by an organization in developing an effective training strategy. Training in an organization can only succeed if there are well stipulated policies and these will be covered in the next section.

10.8 Board training policies

²⁴⁶“*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 individuals and the organization from the pressures of expediency”²⁴⁷ (HR Council of Canada, 2018, <http://hrcouncil.ca/>). In general *board training policies* are the values that help to create the guiding principles that are used when making decisions on matters relating to the training of board of directors and their main aim is to fulfill the organization’s skills development goals. Organizations use policies because they help to outline their mission, strategies and set target objectives. ²⁴⁸According to Krivanek (1999, www.techrepublic.com) an effective training policy does the following: (1) provides guidance for allocating resources such as trainers, money, and time, (2) gives a broad direction to training activities, (3) outlines the authority given to the training department, as well as the limits to that authority. Here are some things to keep in mind while creating policy items: (1) Policy items should relate to the company’s goals, (2) These items should be consistent. *Ask yourself, “Are they in line with the stated mission and objectives?”* (3) They should be clearly written and widely communicated. You can even go as far as to create a “policy checklist” that includes all the items you came up with in your brainstorming session. The following are some of the items you might want to include in your checklist:

- Evaluation of training programs,
- Selection of employees,

²⁴⁶ HR Council of Canada (2018) *HR Policies & Employment Legislation*. Available from: <http://hrcouncil.ca/hr-toolkit/policies-guideline.cfm>

²⁴⁷ HR Council of Canada (2018) *HR Policies & Employment Legislation*. Available from: <http://hrcouncil.ca/hr-toolkit/policies-guideline.cfm>

²⁴⁸ Krivanek, S. (1999) *Creating a Policy for your Training Department*. Available from: <https://www.techrepublic.com/article/creating-a-policy-for-your-training-department/>

- Availability of training,
- Location of training sessions,
- Programs to be established,
- Length of training day,
- Training design standards,
- Tuition paid plans,
- Outside services and programs,
- Policy revision,
- Link from training to performance appraisals,

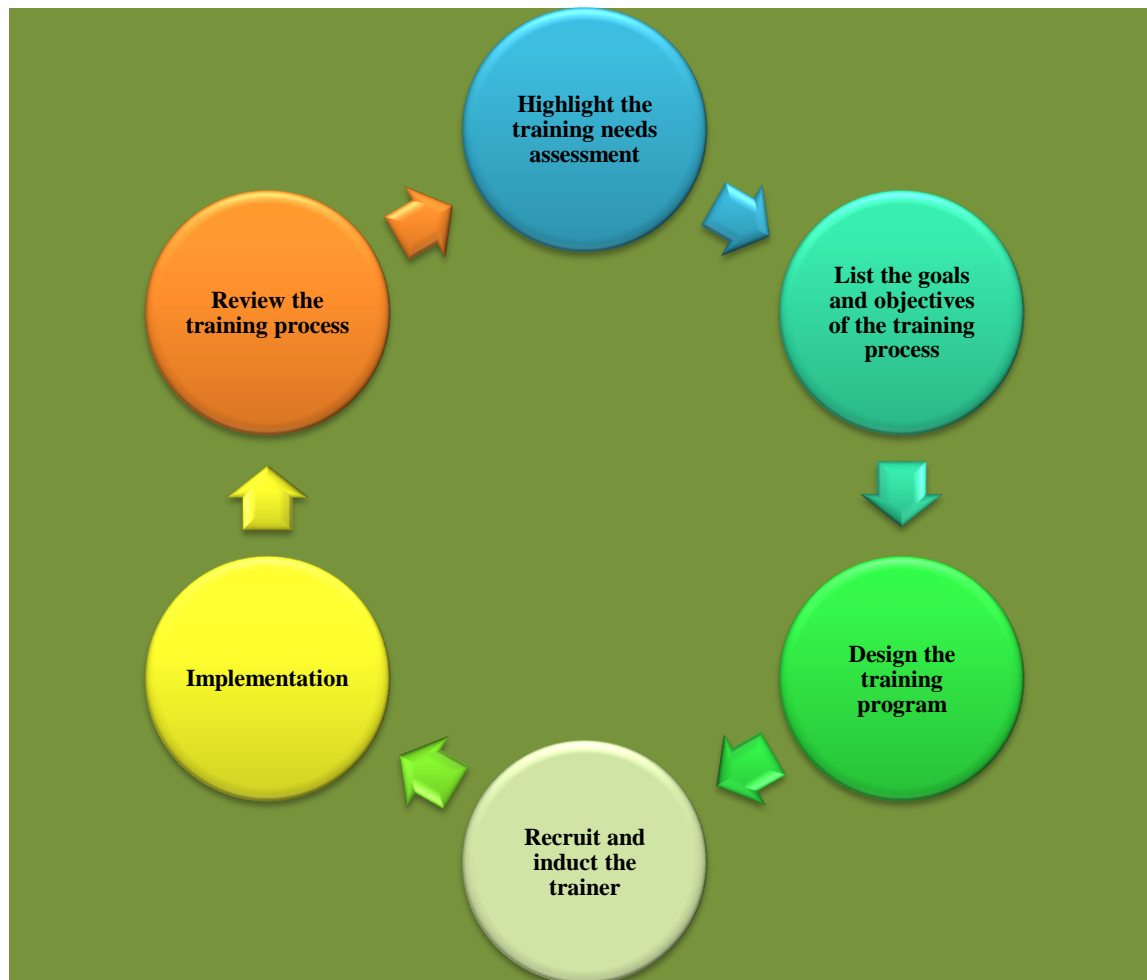
Finally, keep in mind that there should be a policy item that clearly defines how often the policy will be reviewed and updated (Krivanek, 1999, www.techrepublic.com). Therefore, it is of utmost importance that the organization's skills development plan is fulfilled via effectively training its board of directors to acquire new skills. The number one general rule of any training program is that it must always be linked to the organizational strategy and objectives. Therefore, board training programs that are guided by well devised board training policies are often: (1) well planned, (2) they are consistently updated and implemented, (3) maintain high professionalism, (4) produce the expected results and (5) improve the skills base in the organization. When an organization successfully creates its training policies and procedures it can then proceed to conduct the board training process which will be covered in the following section.

10.9 Board training process

One of the first tasks of a governance committee or nominations committee before conducting the board training process is to establish a framework on how the training program will be carried-out. In most cases it is important for the board to first establish the financial budget allocated on the training program. There are several board training processes that have been

developed by human resources management experts/gurus and academics. In this textbook the board training process that will be covered will be depicted by Figure 10.4 below.

Figure 10.4 The board training process



Source: Modified: (Kirkpatrick, 2009, Kirkpatrick Partners, 2018, <http://www.kirkpatrickpartners.com>; Zahra, Iram and Naeem, 2014:66).

As previously depicted by Figure 10.4 the various steps involved in the board training process will be further discussed below. The six steps in the board training process include the following:

10.9.1 Highlight the training needs assessment

The first step in the board training process is to highlight the training needs of the board of directors. It is the duty of the trainer and the governance/nominations committee to first find-out

the different types of training applicable to current board of directors and recently appointed board of directors. Generally current board of directors are already familiar with the organization's knowledge, ethics and compliance, governance practices, financial or strategic plans, products, services, processes, systems, employee wellness programs, various departments activities and so on. Therefore the training of current board of directors often focuses on particular problematic areas while having limited information on induction training. Whereas for newly recruited board of directors their training will encompass induction training (*in order to educate them about the organization's ethics and compliance, governance practices, financial or strategic plans, products, services, processes, systems, employee wellness programs, various departments activities and so on*) and focus on specific problematic areas they may be facing at the workplace. The training needs assessment is a critical step in the board of director skills development as it enables the organization to highlight the current skills gaps in competencies, knowledge and skills that greatly influences the board of directors' personal job performance²⁴⁹ (Kirkpatrick, 2009, <http://www.kirkpatrickpartners.com>).

10.9.2 List the goals and objectives of the training process

In this step the trainer writes down and defines all the goals and objectives the planned training program aims to achieve and how the training program will enable the organization to attain its set goals. Basically the listing down of goals and objectives helps to outline the key performance areas that can be used to assess the performance and effectiveness of the trainers when they carry-out the training (Zahra, Iram and Naeem, 2014:66). The aim of training is to enable board of directors to be highly productive on the job whilst introducing them to modern concepts, learning material and techniques and improving the skills they require to be more effective in their different career specializations (Zahra, Iram and Naeem, 2014:66). In general the 360 degree evaluations during performance appraisals help to provide the trainer with information

²⁴⁹ Kirkpatrick, J. and Kirkpatrick, W. (2009) *The Kirkpatrick Four Levels: A Fresh Look After 50 Years 1959 – 2009*. Available from:

<http://www.kirkpatrickpartners.com/Portals/0/Storage/Kirkpatrick%20Four%20Levels%20white%20paper%20updated%2010%2009.pdf>

about the job performance weaknesses of the board of director that need specific training attention and this also enables the trainer to be able to custom design better training programs.

10.9.3 Design the training program

The design phase entails the formation of a training and development plan with precise objectives. It is an effort to methodically determine how the trainer/organization will be able to attain a successful skills transfer, new behaviors and techniques in the training process. In this stage the designing of the training program must be carried-out in such a manner that allows it to include the various subject topics that will be learnt by doing the following: (1) developing the training materials in-depth, (2) developing course outlines and (3) gathering all the necessary training technology tools to use during training such as note tablets, laptops, the designing of Microsoft PowerPoint presentation slides and so on. In addition it is also important to clearly point-out the methods of training that will be used to deliver the training for example role playing, lectures, case studies and so on (Zahra, Iram and Naeem, 2014:66). *“Used with permission from Microsoft”*. The trainer also ensures (1) that the training venue is ready and (2) the training courses will cover topics that help to solve the identified problematic areas and job responsibilities of the board of directors.

10.9.4 Recruit and induct the trainer

The success of any training process is based on the hiring of an appropriately qualified and experienced trainer by the governance committee or nominations committee and or the chairman of the board. It is critical for the governance committee or nominations committee and or the chairman of the board to ensure that the trainer adequately receives induction training and is properly guided in terms of the aspects the training program will cover namely; its goals or objectives (Zahra, Iram and Naeem, 2014:66).

10.9.5 Implementation

Notably, experts in the field or area of specialty where each individual board of director needs training are required to conduct this stage of the training process since they have adequate knowledge and experience in the subject area the board of director requires training. The trainer should coordinate their activities in the training program properly and ensure that all the training

needs are covered within a set period of time. Monitoring of each trainee during the training process is critical as the trainer will become aware of the problematic areas of each board member and he/she must ensure that these problematic areas are solved by the training (Kirkpatrick, 2009, <http://www.kirkpatrickpartners.com>). A well designed training schedule must be devised and all the training needs must be proficiently fulfilled by the trainer within a set period of time. It is important for the trainer to take into account that each and every trainee has their own unique learning style or pace of acquiring new knowledge therefore some people are either quick or slow learners. One-on-one supervision of trainees is important during this stage of the training process as it enables the trainer to identify the key challenges each individual trainee is facing or what challenges they faced that have been resolved by the training process. One important aspect that must be covered during this stage of the training process is the use of assessment tools (*for example use of revision exercises, case studies & so on to score applicants*) by the trainer to check if the training program managed to achieve its set main objectives or not. Summarization of all the key learning points (KLPs) is important in this stage of the training process to quickly identify if any learning points were omitted during training and quickly attend to them. In general every training program must encompass an effective feedback system to help highlight the level of impact the training process had on improving the trainees': (1) skills, (2) knowledge and (3) how it helped to solve the trainees' current problematic areas on the job. When implementing the training program it is important for the trainer to be knowledgeable about the different learning styles and these include: visual learners, auditory learners and so on.

10.9.6 Review training program

When the training program is implemented it is important for the governance committee or nominations committee and or the chairman of the board to ensure that they evaluate the level of impact the training had on the trainees in particular 'if it managed to achieve the set training goals or not'. In addition the evaluation of training programs enables the organization to assess the competency levels of its trainers and it also allows the organization to successfully outline the exact new skills or knowledge that were acquired by the trainees during the training process. In general the review or evaluation stage of the training process seeks to establish if the training and development process attained all the set training objectives and it also assesses if the training program was conducted according to the set plan. Feedback should be provided 'about the

effectiveness of the training program and the trainer' as this helps to highlight the program's success and areas of weaknesses that need to be corrected. Evaluation of the training program is one of the most critical parts of the training and development process. The governance committee or nominations committee and or the chairman of the board need to know if the current board training and development plans of the organization are being successful or not. It would be a waste of resources to continue to use an ineffective training program therefore good training evaluations are critical as they help to avoid such wasteful expenditures. One of the training evaluations models used by human resources management, governance committees or nomination committees and or the chairman of the board is the Donald Kirkpatrick (1959) *4 Level Evaluation Model* (Kirkpatrick, 2009, <http://www.kirkpatrickpartners.com>). According to Kirkpatrick, J. and Kirkpatrick, W. (2009) *The Kirkpatrick Four Levels: A Fresh Look After 50 Years 1959 – 2009* the 4 levels of evaluation encompass the following: reaction, learning, behavior and results. The Kirkpatrick 4 levels of evaluation are discussed in detail below;

10.9.6.1 Reaction

This first level measures the trainees' fulfillment and response to the training program. It helps to indicate if the training was important to the trainees and they really appreciated it. Reactions to the training program can be obtained soon after completing the training. In this first level of evaluation the trainer must determine the extent to which the trainees find the training favourable, engaging and applicable to their career professions or jobs. The organization and the trainer can conduct anonymous surveys using questionnaires to find out the trainees' genuine reaction to the training with feedback being provided verbally or anonymously via the use of suggestion boxes²⁵⁰ (Kirkpatrick, 2009; Kirkpatrick Partners, 2018, <http://www.kirkpatrickpartners.com>).

10.9.6.2 Learning

²⁵⁰ Kirkpatrick Partners (2018) *The New World Kirkpatrick Model*. Available from:

<https://www.kirkpatrickpartners.com/Our-Philosophy/The-New-World-Kirkpatrick-Model>

“The degree to which participants acquired the intended knowledge, skills, attitude, confidence and commitment is based on their participation in the training” (Kirkpatrick Partners, 2018, <http://www.kirkpatrickpartners.com>). Level two aims to establish what the trainees learnt during the training program. Before starting the training a trainer should conduct a training needs assessment to have an in-depth understanding of the trainees’ current level of knowledge, skills, problematic work areas and how they think this job contributes to the achievement of the organization’s goals and objectives (Kirkpatrick, 2009, <http://www.kirkpatrickpartners.com>). Generally all learning initiatives must be assessed to check if they have achieved their training goals or not and the trainer can conduct assessments by asking the trainees revision questions, case studies, tests and so on immediately after the training has been completed (Kirkpatrick, 2009, <http://www.kirkpatrickpartners.com>). A good indicator of a successful training program is the level of confidence the trainees usually have after the training (Kirkpatrick Partners, 2018, <http://www.kirkpatrickpartners.com>).

10.9.6.3 Behavior

The third level aims to establish the degree to which the trainees’ implement their newly acquired skills and knowledge after attending training upon their return to their respective jobs. On-the-job behavior should be evaluated to check how employee or the board of directors skills and knowledge improved after training. In general the required drivers that help the human resources department, governance committee or nominations committee and or the chairman of the board to ensure that training programs are reinforced amongst the trainees include; processes and systems that help to reinforce, support and reward performance of key behaviours on the job (Kirkpatrick Partners, 2018; Kirkpatrick, 2009, <http://www.kirkpatrickpartners.com>). The governance committee or nominations committee and or the chairman of the board and or the trainer can evaluate behavior of the board of directors to monitor changes in performance through observations, regular 360 degree feedback evaluation and so on (Kirkpatrick, 2009, <http://www.kirkpatrickpartners.com>).

10.9.6.4 Results

This is the fourth level of the evaluation model and it aims to measure the extent of the targeted outcomes as they occur as a result of the training, the support and the accountability package

(Kirkpatrick Partners, 2018, <http://www.kirkpatrickpartners.com>). Level 4 in particular evaluates the level of impact the learning and implementation of the training program had on the organization and new board of directors. Generally the leading indicators of training results include short-term observations and measurements pointing-out that key behaviours are on track to establish a positive impact on the desired results. For instance, increase in sales revenue, high job satisfaction and highly motivated board members indicate the level of impact the training had on the board of directors (Kirkpatrick Partners, 2018, <http://www.kirkpatrickpartners.com>). However, there are certain requirements that need to be met by the governance committee or nominations committee and or the chairman of the board so that training can be implemented successfully and these will be discussed in the following section.

10.10 Pre-requisites for effective training

Training can successfully be designed and implemented in the organization if certain pre-requisites are fulfilled. The five pre-requisites for effective training are depicted in Figure 10.5 below.

Figure 10.5 The five pre-requisites for effective board training

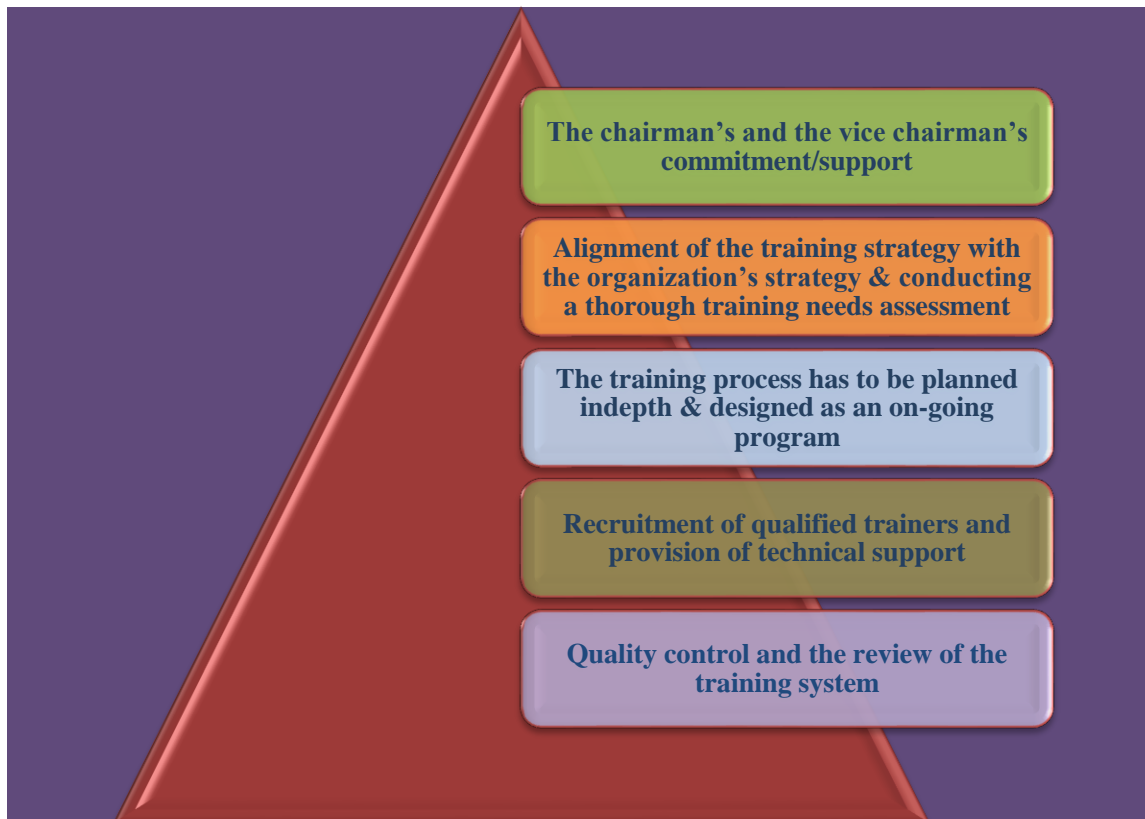


Figure 10.5 clearly highlighted the pre-requisites for effective board training and these will be further discussed below.

10.10.1 The chairman's and the vice chairman's commitment/support

Generally board of directors' are often willing to accept any board training programs introduced by the organization if the leaders of the board are dedicated to the training program themselves. Therefore, the level of positive impact any board training program can have on an organization's board of directors is determined by the level of commitment and support of the chairman and the vice chairman of the board. In addition the level of commitment and support of the chairman and the vice chairman of the board also determines the extent to which the trainees will view or receive the training initiative at the workplace.

10.10.2 Alignment of the training strategy with the organization's strategy & conducting a thorough training needs assessment

The governance/nominations committee and the chairman of the board must first ensure that the training strategy is in direct alignment with the organization's strategy in order for the training process to successfully train the board of directors' to attain the set organizational goals (Kirkpatrick, 2009, www.kirkpatrickpartners.com). A training needs assessment is one of the first critical steps the trainer must take in order to determine all the problematic areas being faced by the trainees in carrying-out their day-to-day duties in the boardroom. Generally the information that is gathered during the training needs assessment process is often used to create the various objectives of the board of directors' training program.

10.10.3 The training process has to be planned in-depth & designed as an on-going program

It is essential for the governance/nominations committee and the chairman of the board to conduct adequate planning, they must also ensure that they properly time and structure or schedule the training activities to be carried-out to avoid omitting the relevant important information that can be used to effectively develop the board of directors.

10.10.4 Recruitment of qualified trainers and provision of technical support

The governance/nominations committee and the chairman of the board must ensure that well qualified trainers are recruited and that they must also have the required critical teaching skills so that they successfully transfer their knowledge to the board of directors. One of the most critical aspect the governance/nominations committee and the chairman of the board must be aware of is that 'not everyone is a good teacher/trainer' therefore effective selection processes must be used to find suitable job applicants to hire. It is important for the trainer to be fully knowledgeable about the subject topic of the board training program and they must also be highly proficient. Successful board training programs are a result of the following aspects: (1) well planned time schedules (2) properly prepared training manuals that are made available to the trainers' on-time, (3) properly outlined board training objectives and these objectives are also made available to the governance/nominations committee and the chairman of the board, the trainees and the trainer.

10.10.5 Quality control and the review of the training system

The management of any board training initiative in the organization is of utmost importance since it enables the organization to assess if the: (1) objectives, (2) goals and (3) values/principles of the training program were attained or not. Notably the quality of the training programs used in board training can be maintained by ensuring that: (1) trainers with the high quality qualifications and experience are hired, (2) good training venues are utilized (*the venue must be: noise-free; well ventilated; offer clean restrooms; offer sufficient uninterrupted lighting and electricity for Microsoft PowerPoint presentations or connecting audio-visual gadgets during training presentations; have comfortable seats including a big table that accommodates everyone*), (3) well developed and planned training courses, manuals or materials are used in line with international training bodies/associations quality standards, (4) when the training is completed the trainees are properly assessed to check if the goals of the training have been attained or not, (5) surveys are conducted at the end of the training program to gather feedback on the various aspects the trainees believe both the trainers' and the organization must improve on, (6) adoption of new latest technologies during training sessions (*for instance social media platforms, video conferencing, podcasting, artificial intelligence, Internet of Things – IoT, virtual reality and so on*). "Used with permission from Microsoft." [The Importance of Human Resources Management & Business Leadership in a Boardroom: 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. There are several tools that can be used in board training and these will be discussed in the following section.

10.11 Useful tools and aids for conducting effective training

There are several useful tools and aids that can be used by organizations nowadays to carry-out effective board training and some of them include; podcasts, Microsoft PowerPoint slide presentations, Internet voice & video conference calling (*for example Skype software provides Internet communications products*). "Used with permission from Microsoft", DVDs, video cassette recording tapes (VCR) and so on. There are numerous tools and aids that are used in board training today and these include the following:

- Charts, pictures, black board,

- Bulletin board, overhead projector,
- Textbooks, manuals and so on (Shabiralyani, Hasan, Hamad, and Iqbal, 2015).

There are certain training obstacles that limit effective training in an organization and this will be covered in the following section.

10.12 Limitations to effective training

There are several limitations that hinder the successful implementation of training in each and every organization. Some of the common limitations include the following:

- Limited financial resources which leave the organization with limited options to use for training efforts,
- Lack of qualified trainers/instructors,
- Lack of support from both the chairperson and the vice chairperson including the lack of technical support,
- Training in some organizations is seen as a once-off activity,
- The inability of the trainer to point-out the training needs of the board of directors and the board of directors' inability to identify their personal training objectives,
- Poor quality management systems that can monitor the effectiveness of board training and delivery methods,
- Board training is ineffective if it is not made mandatory for board of directors to attend and poor attendance rates leads to the trimming down of the board training budget in the organization,
- Poor time management and scheduling in designing the board training program.

10.13 Conclusion

Therefore, with time the board of directors' skills will become outdated and the need to learn some new concepts and technical aspects of their jobs is created. The primary aim for carrying-

out board training in an organization is for board of directors to learn new knowledge and skills on a regular basis so that they may continue to implement these newly acquired skills in their day-to-day work activities. An organization's goals must consistently be interrelated to the board training strategy and the training needs of board of directors. Training policies help to create guiding principles the chairman of the board, governance committee and the nominations committee must follow when making decisions that are related to board training and development at the workplace. It can therefore be concluded that board training in an organization can only be successfully achieved if there is dedication and support from both the chairman and the vice chairman of the board.

10.14 Review questions

- (1) Define the following terms: training and development? Outline the objectives of training and development of the board? Explain who is responsible for the training & development of the board?
- (2) Outline the benefits of training and development? Discuss the two methods of board training? Explain in-depth what is a training strategy?
- (3) Describe in-depth what are board training policies? Discuss in-depth a board training process?
- (4) Identify the five pre-requisites for effective board training? List the various limitations to effective training?
- (5) Outline the useful tools and aids for conducting effective training?

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Chapter 10

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