



Chairman of the Board Research

A Survey of South African Directors

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Key Findings

As part of an international comparative study conducted by Cranfield School of Management in the United Kingdom, Board members from the Institute of Directors in Johannesburg and Johannesburg Stock Exchange (JSE) data base at the University of Cape Town's Graduate School of Business (GSB) were invited to take part in a survey that explored views on Chairman of the Board, the role and contribution of other Board Directors and other aspects of Board performance. In total 100 questionnaires were completed, providing some useful insights into Board performance within South Africa.

In summary the consistent findings emerging are:

- South African Board Directors are considered trustworthy.
- The CEO/MD displays concern for shareholders.
- Directors display integrity.
- The CEO/MD drives the strategy.
- Directors promote governance best practice in the company.
- The CEO/MD is not undermined by the Chairman.
- The CEO/MD determines the vision.
- Directors are easy to talk to.
- The Chairman displays concern for shareholders.

One key variable where views of opinion differ is position on the Board. Some of the key findings include:

- Chairmen consistently rate themselves higher than do other Board members.
- Views of the CEO/MD are fairly consistent with other Board members and their role is a strongly influential one.
- The role of the Chairman seems to be isolated and the Deputy Chairman (where one exists) could be a key link between the Board Directors and the Chairman.



The findings have implications for:

- Chairman contribution and performance which emerges as requiring specific attention.
- The future role of the Chairman and the number of Non Executive Directors on the Board.
- Understanding the decision-making process at Board level.
- Board member development.
- The future role and responsibilities of the Board and the Board's impact on the organisation.

Chairman and Directors of the Board

Introduction: Research To Date

- Little evidence emerges that Board composition directly impacts on Board performance (Ehikioya, 2009).
- Chairman/CEO duality, however, adversely impacts on firm performance (Maharaj, 2009).
- Boardroom dynamics both positively and adversely effect boardroom performance and in turn, organisational performance (Abor and Biekpe, 2007).
- Too cosy a relationship between CEO and Chairman can adversely effect both boardroom and top team performance (Ong and Wan, 2008; Kakabadse and Kakabadse, 2008).
- Directorships, held by black people of listed South African companies, have slowly but progressively increased (Commission of Employment Equity, 2008). However, a comparable increase of female directors has not taken place in South Africa.
- Despite the fact that there is an emerging tendency to appoint black people to Non Executive Director (NED) roles, there remains a paucity of appointments of black candidates to the role of Chairman.
- The influence of the King Reports (King, 1994; 2002; 2009), have been and continue to be profound. In particular, King (2006) recommendations focus on clarifying the duties and responsibilities of the role of Chairman in relation to the role and contribution of other board directors and effective boardroom performance. Particular skills and qualities necessary for a high performing Chairman are highlighted,
 - Spending time with senior management prior to Board meetings.
 - Being fully acquainted with the background to Board agenda items.
 - Being well prepared for Board meetings.
 - Being knowledgeable of the strengths and weaknesses of each Board member.
 - Being independent of management (emphasised in King III report).
 - Establishing a positive rapport with management.

- Being a good listener.
- Regularly liaising with the Chairperson of the Board's sub committees.
- Ensuring that organisation strategy has been fully scrutinised.
- Encouraging open dialogue on the Board.
- Balancing drawing out critical opinion with Board cohesiveness.
- Effectively delineating the roles of CEO from that of Chairman.
- Determining the role and contribution of the Board.
- Determining the role and contribution of the management team.
- Effectively engaging with all stakeholders.

The Study

Board Directors from a sample of South African companies, who were either members of the Institute of Directors (IoD) based in Johannesburg or from a University of Cape Town (UCT) Graduate School of Business library data-base, were invited to participate in an important international, non-attributable survey on the role and contribution of Chairmen and Directors of the Board. A questionnaire was sent out to South African Board members. Staff within the IoD and UCT helped collate the responses. Respondents were asked to complete the questionnaire with respect to one Board that they were a member of. The questionnaire was divided into a number of sections. The first set of questions focused on demographic information about the respondent and the operation of the Board. The second part of the questionnaire invited participants to give their opinions of the Board Directors and the Chairman using a rating scale (1=Not at all true to 9=Very true) in a number of key areas:

- Strategic decisions.
- Governance.
- Risk.
- Style.
- Qualities.
- Performance.

In further sections, participants also rated the performance (using a 1 to 9 scale) of:

- The Board.
- The CEO/MD.
- Deputy Chairman (where applicable).

In total 100 questionnaires were completed. Considering the nature of respondents and the lack of board data available within South Africa, this is deemed to be a good response, but care needs to be taken regarding making generalisations about the broad population of company directors as a whole, as views of Non Executive Directors are under-represented. The remainder of this report focuses on the key findings from the survey and highlights areas that require consideration at Board level. International comparisons are made where possible with other countries taking part in the survey research to date, namely the UK, Australia and Russia (Kakabadse et al, 2008a, 2008b, 2009).

Characteristics of the Board

Whilst the Chairman is responsible for the overall leadership of the organisation, the Board typically comprises of those who have other areas of responsibility: notably, the Executive Directors and the CEO/MD. The following table (see Table 1) shows a breakdown of respondents from the survey – a sizeable number hold the position of CEO/MD or Executive Director. The sample of Non Executive Directors is small and it will therefore not be possible to analyse the views of these Directors.

Table 1

Current position held	Number of responses
Chairman	9
CEO	20
MD	15
Chief Financial Officer/Finance Director	14
Executive Director	31
Company Secretary	5
Non-Executive Directors	3
Other	3
TOTAL	100

The sample has the following demographic profile:

- Race and gender remain key features of the composition of South African Boards. Boards tend to be male dominated, with some 1 in 7 (15%) female respondents. This is consistent with the findings of the 2007/8 Annual Report of the Commission for Employment Equity (CEE), which found that 15.2% of top and senior level managers were white females and a further 9.7% were black females. Our comparative research shows that gender representation on the Boards of Australian, UK and Russian firms is not much different than that in South Africa.
- The majority of respondents (82%) are well-qualified and hold either an Undergraduate or a Masters degree. Top and senior executive positions held by black people amount to 32.4% (Commission or Employment Equity (2008). This represents an incremental change in the racial profile of top executive positions, reflecting a 7.8% decline in white male representation at this level.
- The age group differs slightly by area of responsibility. The following table (see Table 2) shows the age split by the Board members. Chairmen tend to be slightly older and Executive Directors younger overall.

Table 2

Age	Chairman	CEO/MD	Executive Directors	Other Board Members
Under 40	0.0	21.2	18.5	28.7
40 to 49	25.0	30.8	40.8	19.0
50 to 59	50.0	36.5	37.0	33.3
60 or over	25.0	11.5	3.7	19.0
TOTAL	100.0	100.0	100.0	100.0

In terms of the way the Board operates:

- Two in three (67%) work on a Board that has between 6 and 11 members and 21% have between 12 and 14 members.
- On average there are around 5 Board meetings a year.
- Meetings typically last for up to half a day (66%), or a day (33%), but rarely longer.

International Comparisons

The demographic findings are consistent with the UK, Australia and Russia in that the majority of respondents are male and are well qualified. The age of the Chair is consistent when compared to the UK and Australia. Chairmen tend to be younger in Russia.

Overall Findings

The survey was divided into a further four sections whereby respondents were asked to rate the strategic role of the Directors and Chairman on a number of issues, the Directors of the Board, the CEO/MD and the Deputy Chairmen (where applicable). Generally speaking, the results are fairly positive.

Directors are rated highly with respect to:

- Displaying integrity (average score=7.93).
- Being trustworthy (7.88).
- Promoting governance best practice in the company (7.61).
- Being easy to talk to (7.39).
- Willingly taking part in open debate (7.38).
- Working well with the CEO/MD (7.30).

The Directors of the Board are rated highly on the following:

- Benefiting from the CEO/MD's contribution (average score=7.35).
- Being attentive to corporate reputation (7.35).
- Benefiting from the co-director's contribution (7.20).
- Being diligent in governance application (7.14).

The performance of the Chairman is not rated highly, but they score highest on the following:

- Utilises well the skills/experience of Directors (average score=6.19).
- Effectively evaluates the performance of the CEO/MD (6.14).

The CEO/MD is generally rated highly on the following:

- Displaying concern for shareholders (average score=7.91).
- Driving the strategy (7.68).
- Not being undermined by the Chairman (7.54).
- Determining the vision (7.43).
- Having an open relationship with Board Directors (7.38).
- Respecting the Board Directors (7.34).

International Comparisons

Whilst Directors were not specifically measured in the other countries, comparisons can be made for the Chairman and CEO/MD. The findings relating to the Chair are consistent with the other countries in that the Chair tends to rate their performance in their role higher than others at Board level. However, for South Africa other Board members tend to have a lower opinion of the Chair compared to the other countries.

The King Report

There have been three King Reports to date (1994; 2002; 2009). The King II Report and King III Report focus on corporate governance in South Africa. The reports cover, amongst others, risk management, auditing, compliance, integrated sustainability reporting board configuration, the independence of the Chairman and other board directors, and other issues such as ethics, integrity and disclosure. It is for these reasons that the King reports feature heavily in this study.

Respondents were asked to rate the impact of the report(s) on how the Board functions (1=Not at all true, 9=Very true). A score above '6' represents a positive impact and 70% of respondents rated the report(s) 6 or above. By way of examples, these include:

- Composition of Board - restructuring to include more Non Executive members.
- Influenced make-up of committees (e.g. risk).
- Role of Chairman and CEO divided.

Influences on Opinion

The background of individuals can have a significant influence on their opinion with respect to business issues. When taking demographic variables such as age, gender and education level from the survey into account, there are no significant differences of view between age groups and education level when analysing the performance of the Directors and Chairman, the Directors of the Board and the CEO/MD.

Looking at variables such as position on the Board, size of the Board, number of Board meetings per annum and the typical length of these meetings, there are no significant differences of view, although this could be down to the sample size. Although not significant, views do differ in relation to the performance of the Chairman, Directors of the Board, the CEO/MD in that:

- Chairmen are more positive about themselves and the Directors than those in other positions. This was also found in our study of UK, Australian and Russian directors. However, Chairmen are rated lower in the South Africa survey.

The following section explores the views of Chairmen and Directors in more detail.

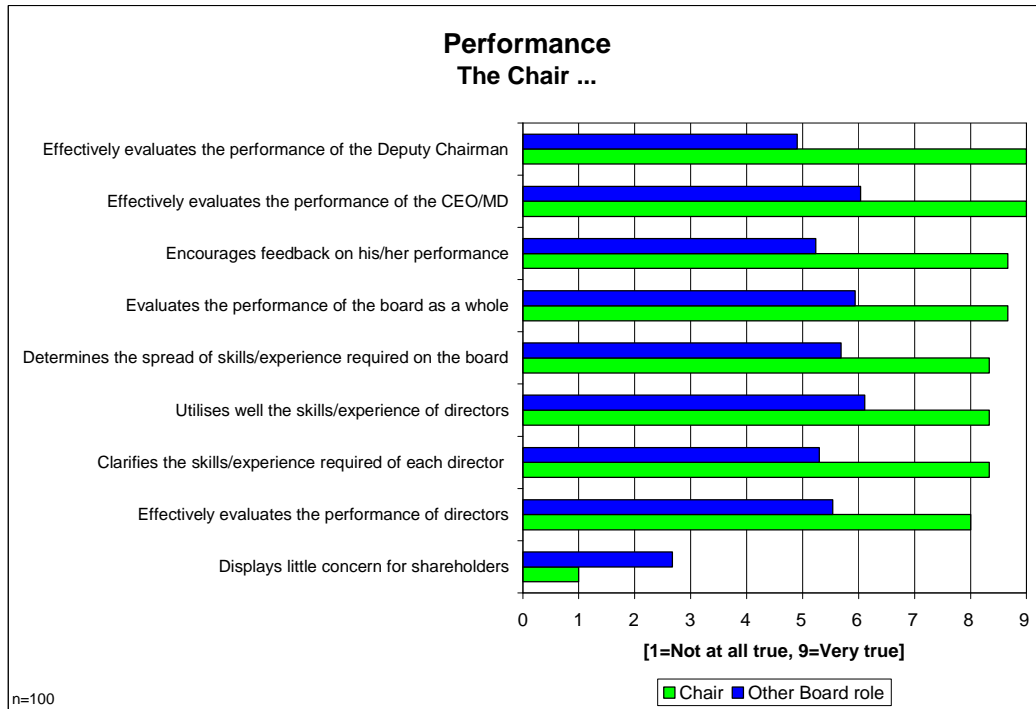
The Chairman

The results of the survey show that Chairmen rate themselves higher with respect to their own performance compared to how other members of the Board rate them, particularly with reference to the following:

- Encouraging feedback on his/her performance.
- Clarifying the skills/experience required of each Director.
- Effectively evaluating the performance of the CEO/MD.
- Evaluating the performance of the Board as a whole.

Other Board members rate the Chairman lower than they would score themselves as being significantly better on these statements (see Figure 1 for more detail on the relatively high scores for Chairmen). Data from the Australian Director survey (a sample of 207 Directors) indicates a better and more clearly defined working relationship between the Chairman and CEO.

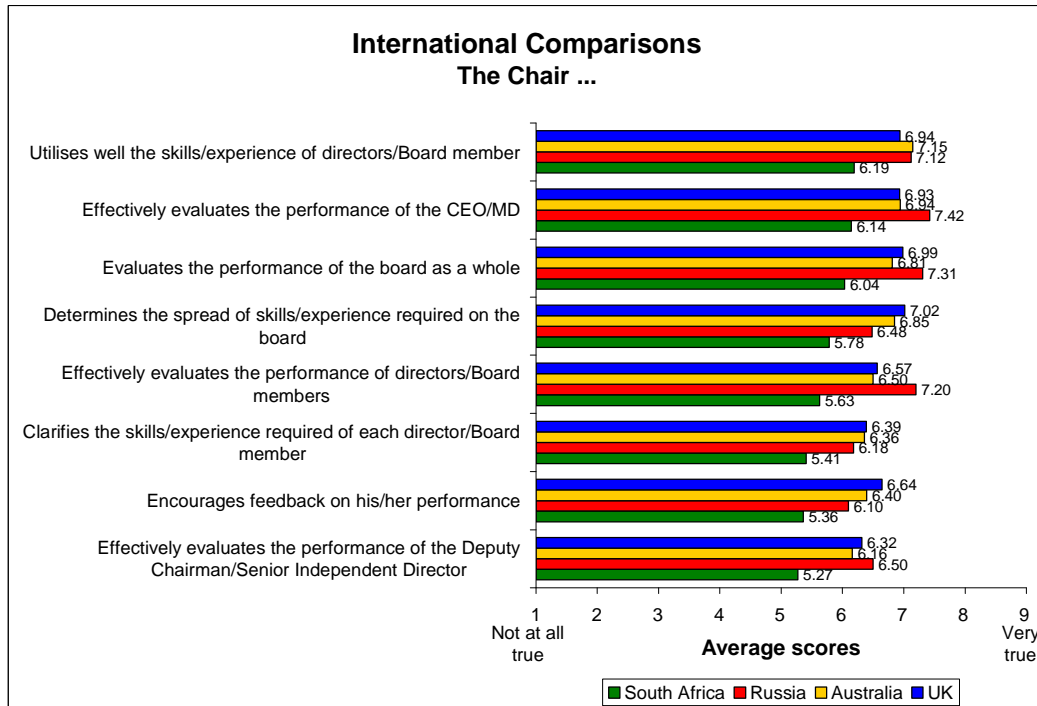
Figure 1: Performance – The Chair



International Comparisons

The statements in the above figure would seem to be important in determining how successful a Chairman can be. The overall scores for these statements were compared with the UK, Australia and Russia (see Figure 2). The scores in the UK, Australia and Russia are consistently higher compared to South Africa.

Figure 2: International Comparisons – The Chair



The Strategic Role of Directors

With respect to the strategic role of Directors, the Chairmen again rate themselves higher than do the other Board Directors. For example, Chairmen believe that the Directors:

- Work well with the Chairman to realise the goals of the organisation, whereas other Board Directors are not as strong in their agreement (see Figure 3).

With respect to governance, Chairmen are more likely to believe that the Directors:

- Promote governance and social responsibility best practice throughout the supply chain (see Figure 4).

Figure 3: Strategic Decisions - Directors

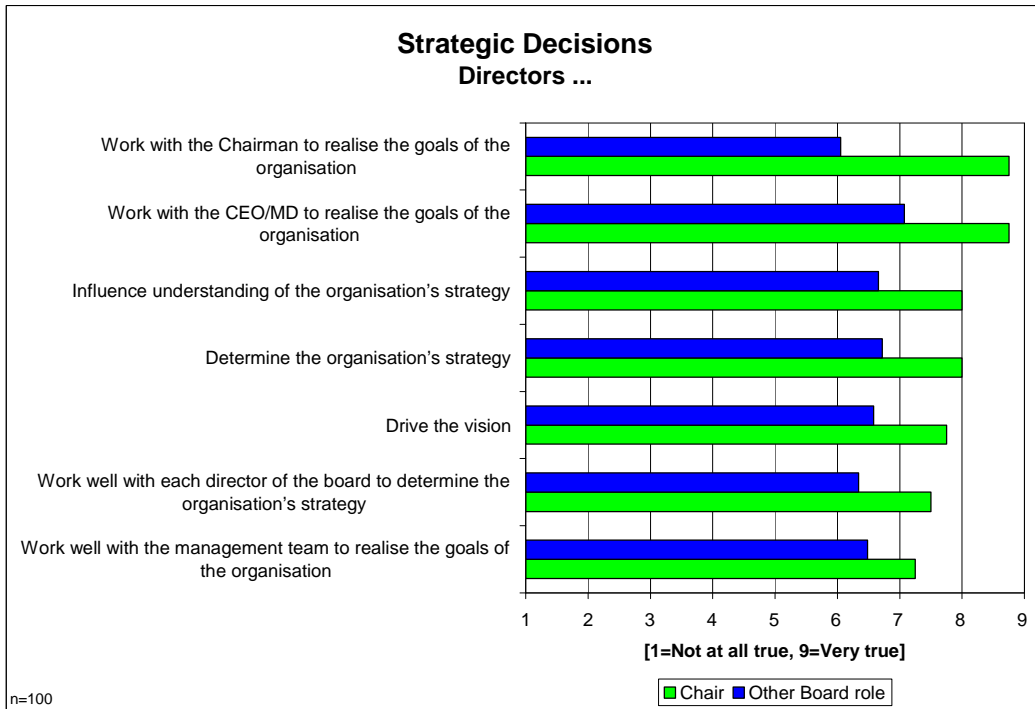
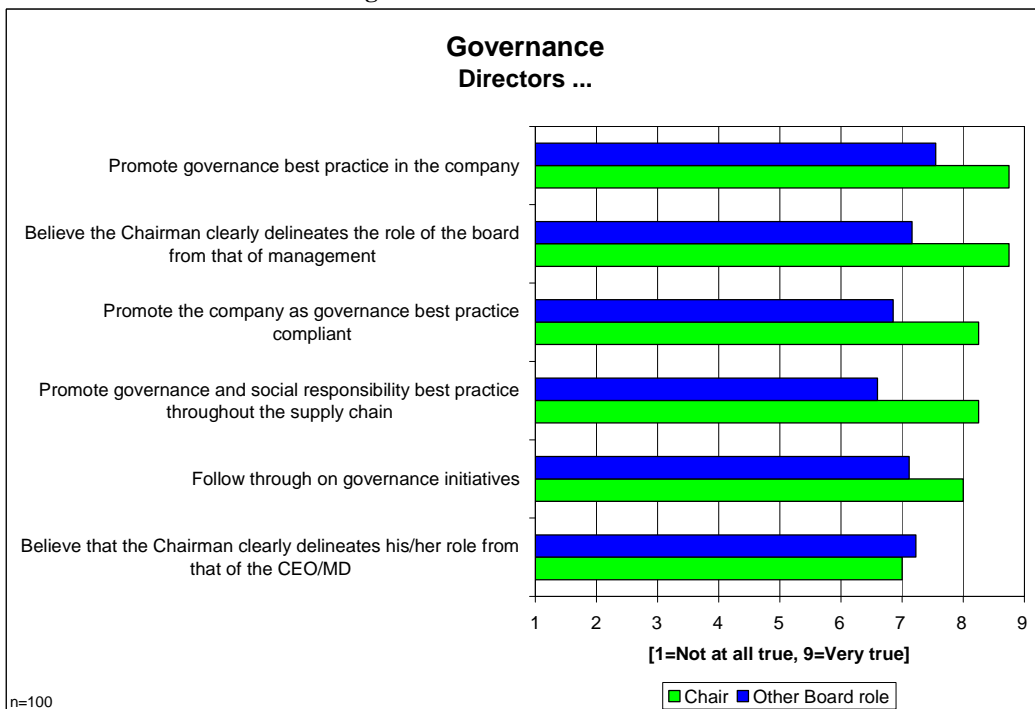
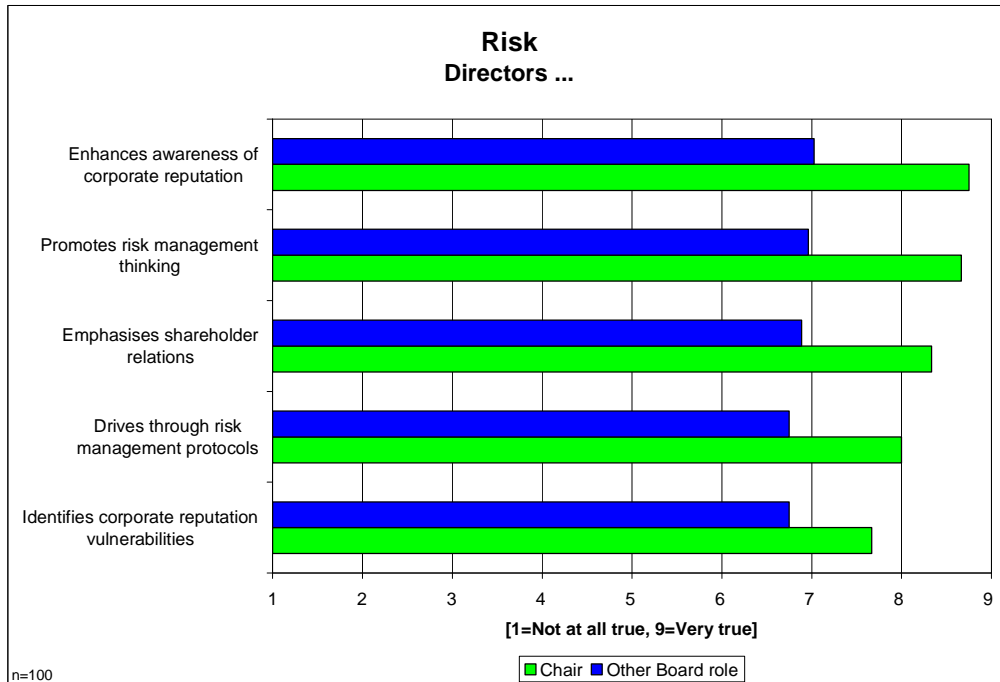


Figure 4: Governance - Directors



With respect to risk, Chairmen score themselves higher than do other members of the Board (see Figure 5).

Figure 5: Risk - Directors



In assessing the style and qualities of Directors, Chairmen consistently score themselves higher than their Board counterparts, in that the Directors:

- Take a long term view.
- Are inclusive.
- Encourage challenge.
- Promote teamwork.
- Are easy to talk to.
- Are robust in their arguments.

It is not clear why these differing views exist between the Chairmen and other Board members – possibly the Chair is out of touch with what is happening with respect to the Directors, or may want to put a positive spin on their own performance. The social or

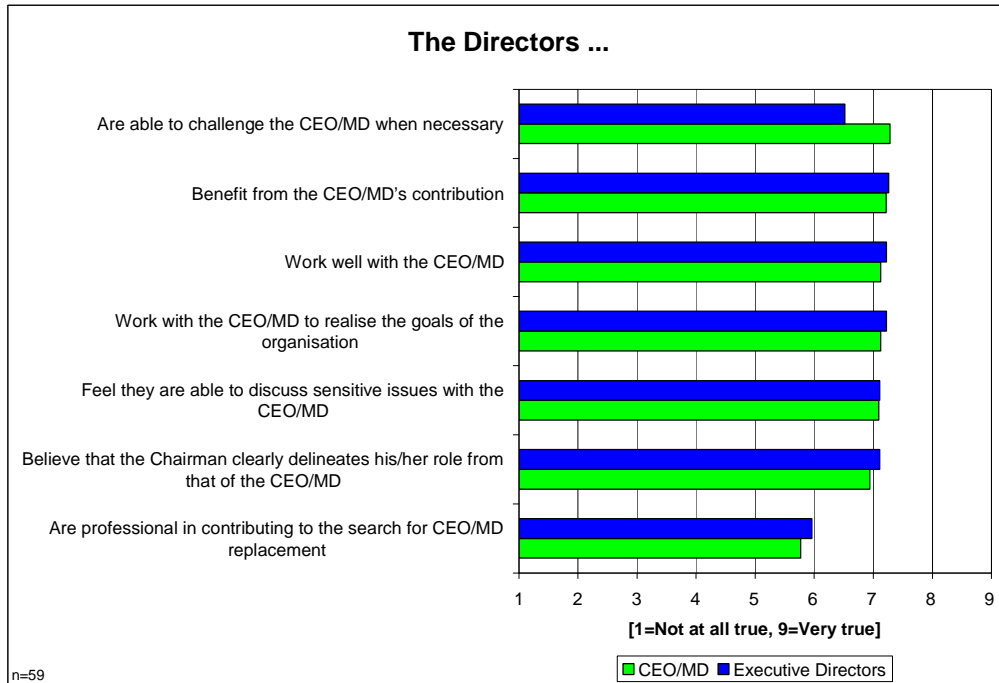
power distance between the Chairman and Directors may be a function of the traditional power-based role of CEOs and the influence of a changing demographic corporate landscape. The findings of this survey query the effectiveness of Chairman of the Board of South African companies.

An area of concern is that of strategic decision making. In contrast, findings from our UK sample of 350 FTSE Directors reveal that UK Chairmen may be edging towards adopting a corporate strategic role aligning themselves with and/or even superseding the CEO, rather than focussing on their 'traditional' key board responsibilities. Additionally, issues of concern about Chairman succession in South Africa are mirrored in the UK. The UK data show an even bigger contrast in the views of Executive Directors and those of the Chairmen on issues such as encouraging open debate, raising sensitive issues, promoting teamwork, conducting a professional search for Board member replacement and encouraging feedback on performance. An interesting feature of the Australian survey is that Australian Boards seem to exhibit higher levels of team working and meaningful shared views than boards in the other countries surveyed.

The CEO/MD and the Executive Director Interface

It is critical that the CEO/MD/Executive Director interface works effectively and is seen to work. Dysfunctionality here will affect Board and organizational performance and the wider relationships with other Board members (see Figure 6).

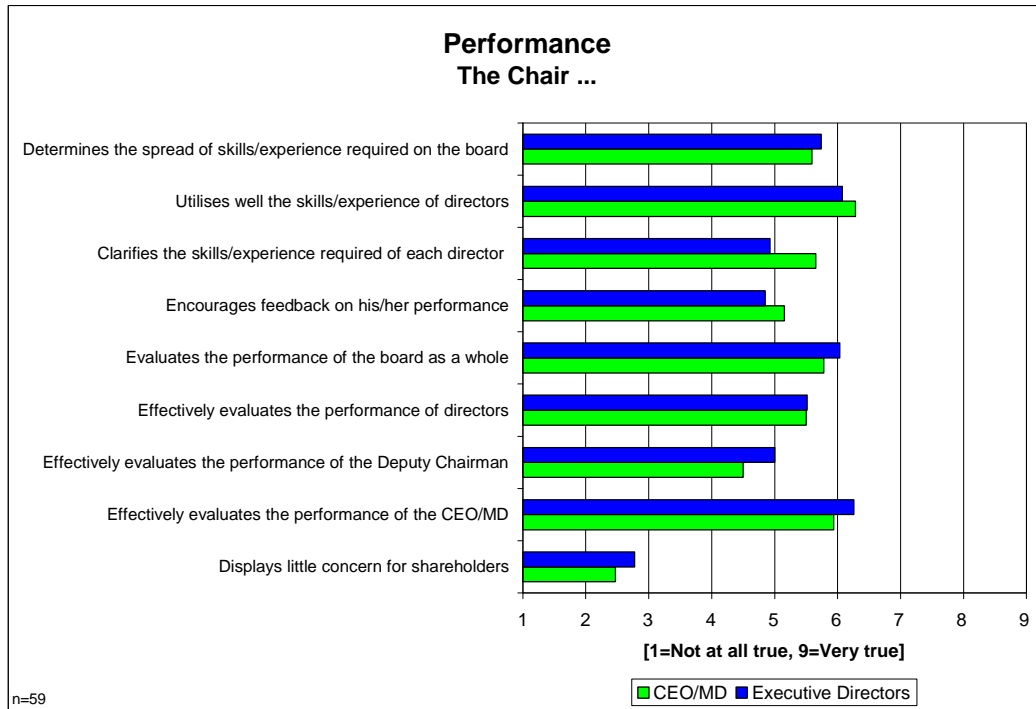
Figure 6: The Directors



Analysis shows that the views of the CEO/MD, Executive Directors and other Board members (with the exception of the Chairman) are very much in tune with each other. However, in assessing the performance of the Chair, the views of the CEO/MD and Executive Directors are consistent. Both CEOs/MDs and Executive Directors do not appear to have a high regard for the Chairman (see Figure 7). This again questions the role and value of the Chairman on South African Boards. The role of the CEO/MD is further reinforced in comparing their views and other members of the Board, in that they are seen to:

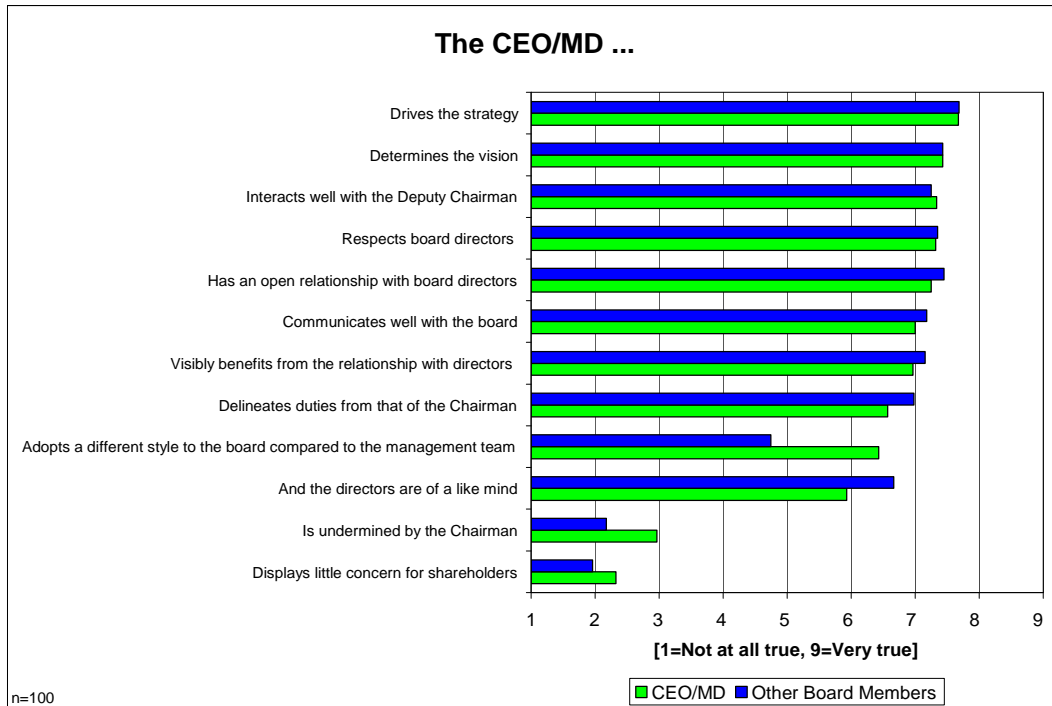
- Drive the strategy.
- Determine the vision

Figure 7: Performance – The Chair



Views differ, however, in the style the CEO/MD adopts on the Board compared to the management team (see Figure 8).

Figure 8: The CEO/MD



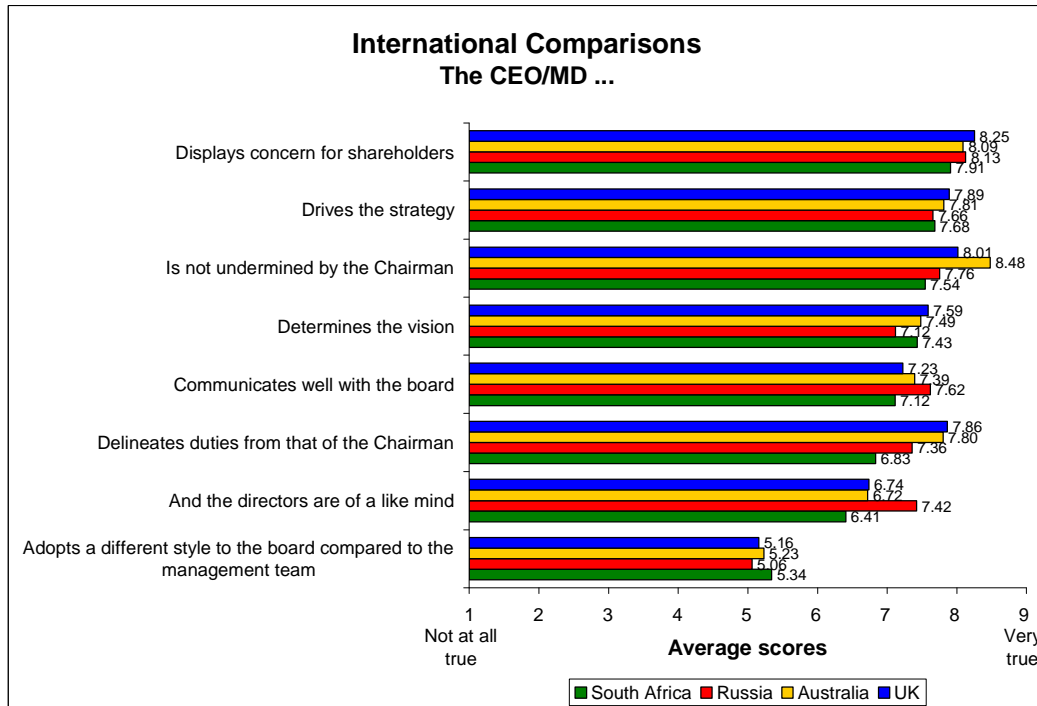
International Comparisons

The statements highlighted in Figure 8 were compared, where possible, with the results of the UK, Australia and Russia surveys (see Figure 9). Unlike the scores for the Chairman, the scores for the CEO/MD in South Africa are fairly consistent with the UK, Australia and Russia. The South African sample, however, does score somewhat lower on:

- The CEO/MD clearly delineates duties from that of the Chairman.

This supports the findings earlier in the report about the need to clarify the roles of Chairman and CEO/MD.

Figure 9: International Comparisons – The CEO/MD



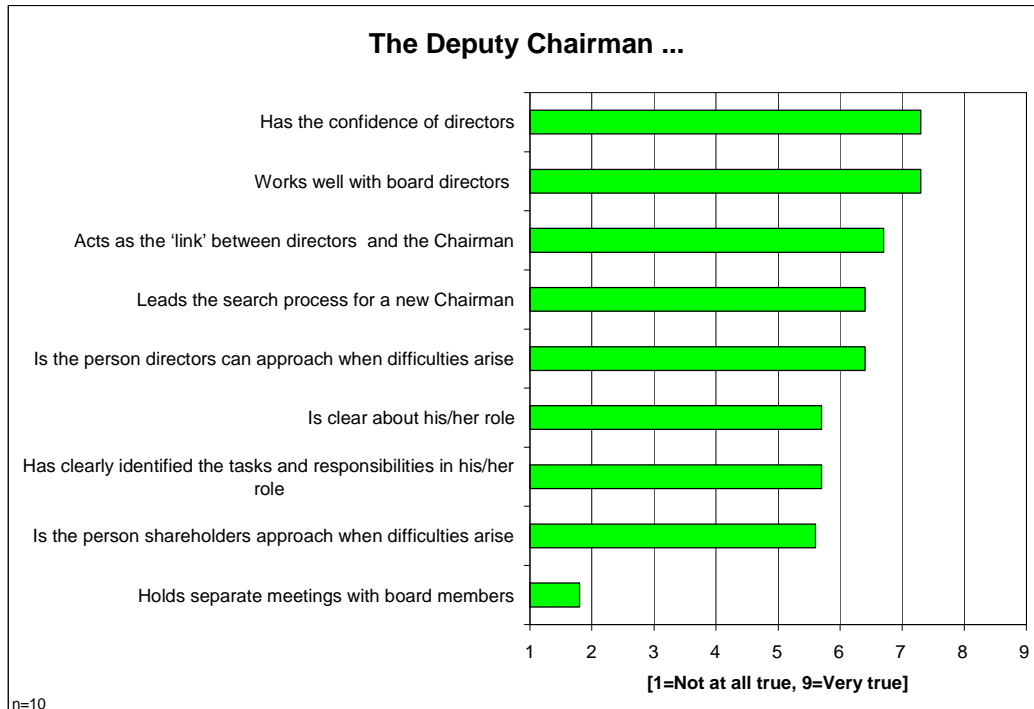
The Deputy Chairman

Although there were only ten responses to the section on the Deputy Chairman (where the role existed), their role is seen to be potentially an important one in that they:

- Have the confidence of Directors.
- Work well with Board Directors.
- Act as the ‘link’ between the Directors and the Chairman (see Figure 10).

Deputy Chairmen are less prominent in the South African business landscape with organisations not always having this role represented on the Board. Our findings show that their potential contribution is nonetheless important. In the Australian study, while the Deputy Chairman also seems to have the confidence of the Board, a certain degree of role ambiguity exists. The role is clearly better differentiated and understood in relation to that of the Chairman and CEO. Similar to South Africa, the Australian data suggests that the relationship between the Deputy Chairman and CEO is seen as fragile. Overall, there is no consistent understanding of the role and contribution of this particular position.

Figure 10: The Deputy Chairman

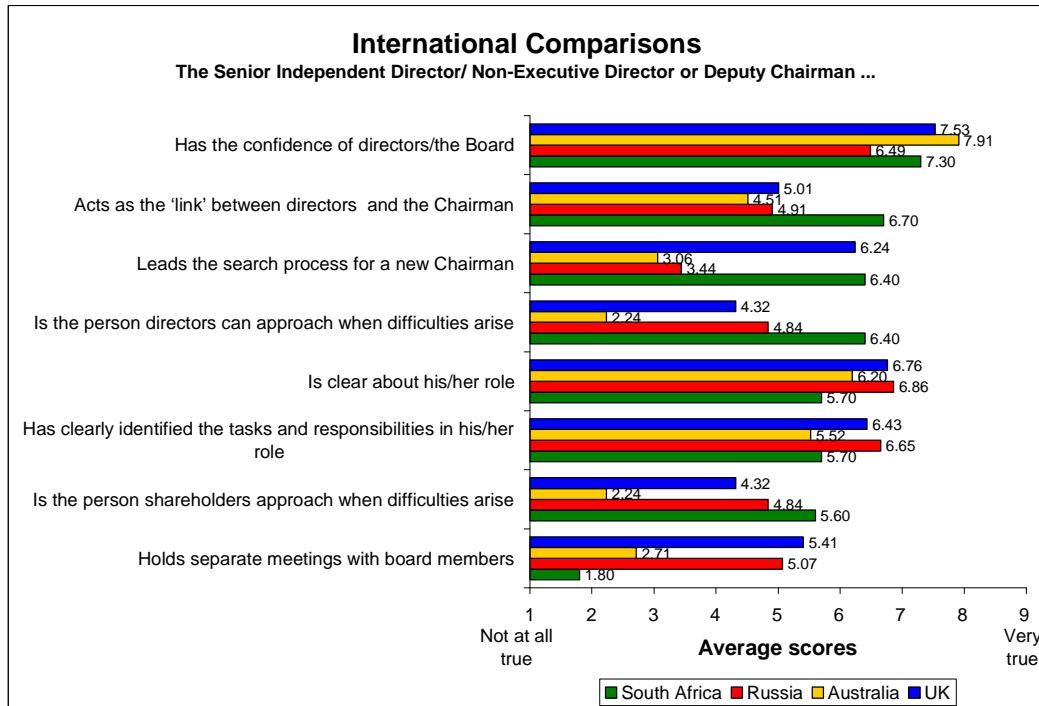


International Comparisons

Although numbers are small, comparisons between the role of Deputy Chairmen in South African organisations were compared with the other countries taking part in the survey. The role of the Deputy Chairman in South Africa is similar to Australia and with Senior Independent Directors in the UK and with Senior Independent Directors/Non Executive Directors in Russia. The following figure (see Figure 11) shows that this role scores significantly higher in South Africa on:

- Acting as a link between Directors and the Chairman.
- The person Directors can approach when difficulties arise.

Figure 11: International Comparisons – SID/NED or Deputy Chairman



Directors of the Board

In terms of the performance of the Board, Board Directors particularly score high in that they:

- Benefit from the CEO/MD's contribution.
- Are attentive to corporate reputation (see Figure 12).

Areas of weakness relate to Board member and CEO/MD replacement (see Figure 13).

Figure 12: Directors of the Board (I)

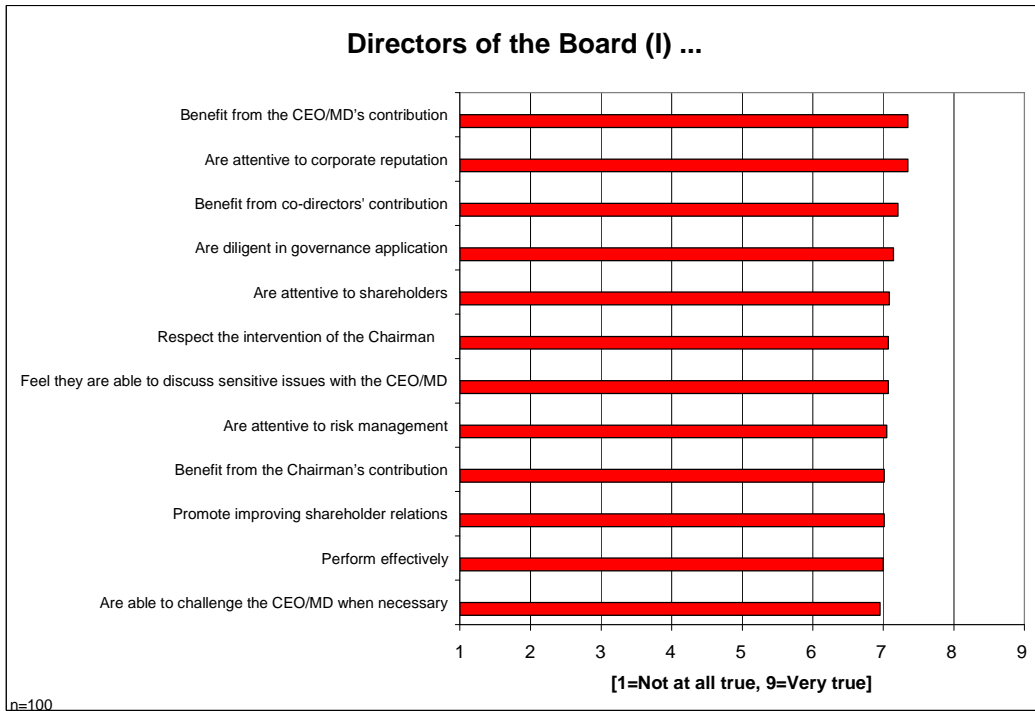
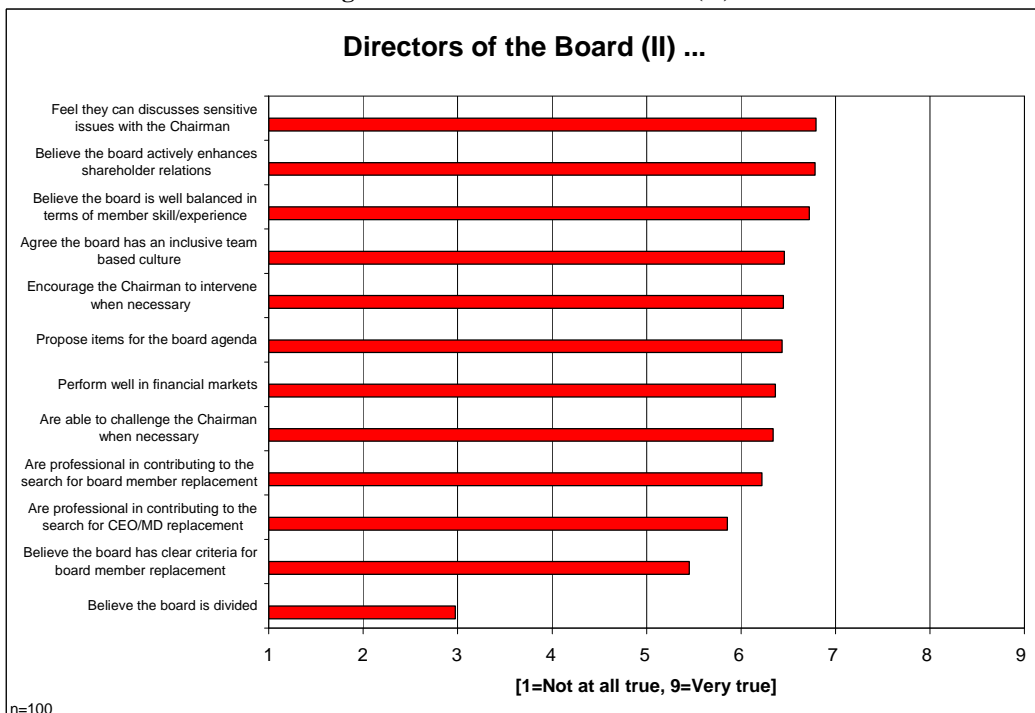


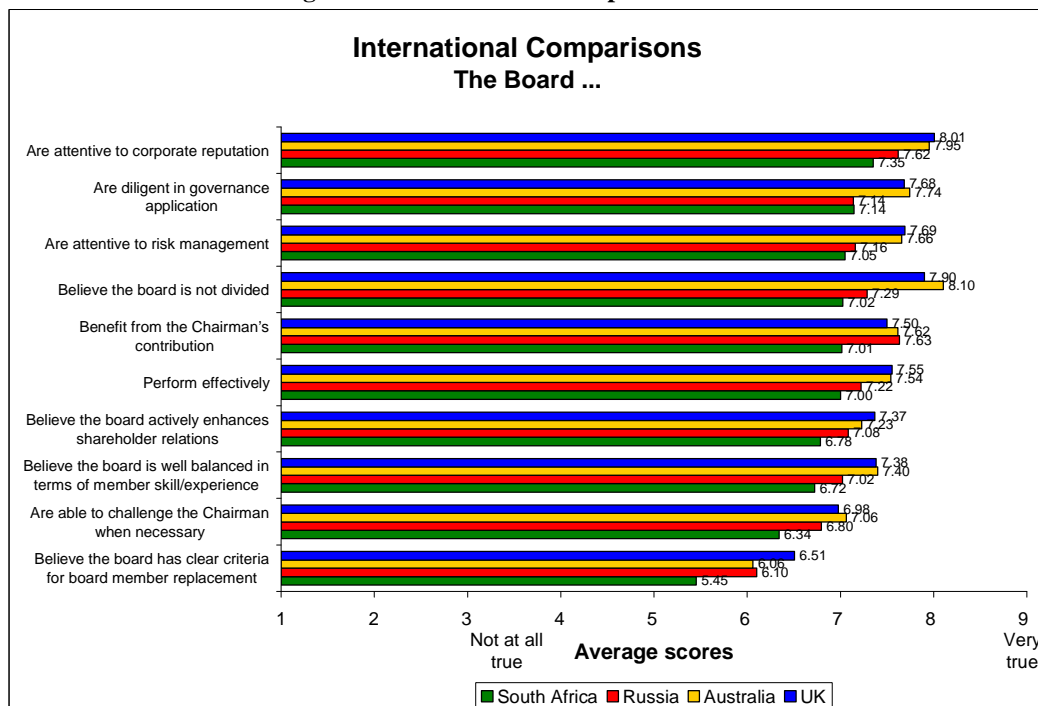
Figure 13: Directors of the Board (II)



International Comparisons

Although Boards are rated as performing fairly well in South Africa, they seem to lag somewhat behind their international counterparts on most of the measures (see Figure 14).

Figure 14: International Comparisons – The Board



Board Development

An array of regulatory and legal-political pressures point to the need for investment in Board development. These pressures include the continuous need to improve the Board and organisation's performance, increased shareholder activism through voluntary and regulatory codes supported by new public policy, developing the Board as a cohesive but critically evaluative team, greater skills in conflict resolution particularly concerning competing visions for the future direction of the firm, personal skills development of members, defusing the thorny issue of executive remuneration such as bonuses and stock options. The results show that generally speaking Boards within the South African sample are performing fairly effectively. Views do not differ that greatly amongst Board members, except for the Chairman. Areas that are worthy of consideration at Board level include:

- Why are Chairmen of South African companies rated more negatively than the UK, Russian and Australian Chairmen?
- What currently is the role of the Chairman and what is their true impact at Board level?
- Why do the views of Chairman differ significantly from those of other Directors and how can these gaps be addressed?
- Are CEOs/MDs aware of their impact on the wider relationships between themselves, the Chairman and other Directors – to what extent do they need to be of a ‘like mind’?
- How can Boards address CEO/MD and Board member replacement?
- What is the role of the Deputy Chairman and are Boards utilising them effectively?
- What are the impacts of the above on decision-making strategy development and the future performance of the organisation?

We emphasise our concerns about the capability of South African Chairmen to meet the skills and performance standards for Chairmen set out by King (2006; 2009). The capability for independence of thought and action and the skills for leading the board by South African Chairmen requires further investigation and scrutiny.

Our findings support previous research (Kakabadse and Kakabadse, 2008) that highlights the importance of delineating boundaries and boundary roles in respect to responsibility for governance, the CEO mandate, the contribution of Board members, role duality combining Executive (insider) position with the role of Independent Chairman, clarity between the Chairman and CEO as to who sets the vision and responsibility for building the right mix of skills of the Board and assessing the level and quality of Director contribution. Our previous studies highlight the contribution of the Chairmen in effectively addressing these issues. This survey raises concerns about the capability of South African Chairmen to address these critical issues which affect board performance.

The Future Board

This survey highlights the need for more rigorous consideration to be given to the role of South African Board members. Our research brings into focus the composition of the Board in a particular societal transitional context, emphasising the increasing need to move away from ‘old boys clubs’ to a more inclusive responsive stakeholder Board. Under such circumstances, the role of the Chairman is critical. The importance of clarity of the Chairman’s role and responsibilities in relation to the CEO, Deputy Chairman (where this occurs) and other Board members is further reinforced. The results show that

there is room for improvement concerning the performance of Boards in South Africa. Issues for further consideration at Board level include:

- What will Boards in South Africa look like in five to ten years time and how will they be run – how will the need for transformation of the composition of Boards play out?
- What will be the roles of the Chairman and Non Executive Directors be and how will they be positioned to be an essential part of the governance and strategy development of the organisation?
- How will Board member succession and replacement take place?

The role of boards in contributing to strategic direction and firm performance will see change as the political economy undergoes transition. Better understanding of the role of the Chairman, in comparison to the often heroic leader status of the CEO, is critical as our other studies emphasise that the Chairman is pivotal in influencing outcomes and determining the long-term direction of the firm (Kakabadse and Kakabadse, 2008).

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