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*With the introduction of King III the **boardroom**, once an inner sanctum for secret ritual of top-level policymaking, is slowly opening its doors and letting in a bit of sunshine. As the shareholders or investors begin to peek into the corporate “kiva,” (Price Waterhouse Coopers, 2011)*

"Good corporate governance, it's about being proper and prosper."

— [Toba Beta](#), [Master of Stupidity](#)

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CHAPTER ONE: INTRODUCTION

1. OVERVIEW AND RATIONALE

1.1 Introduction

This chapter will describe the context in which public entities operate and outline the need for the study. The chapter will also explain the relationship between the research problem, objectives and scope of the study.

Board decision quality is a topic within the broader field of corporate governance (Forbes and Milliken, 1999). As a field of study corporate governance has evolved from a preventative focus, monitoring mechanism, to the study of board process variables as a means to improve the performance of organisations (Scarborough, Haynie and Shook, 2010). Corporate governance thinking was dominated by agency theory thinking for decades and this is highlighted by the work of Berle and Means (1932), Jensen and Meckling (1976), Shleifer and Vishney (1997), Fama and Jensen (1983), Perry and Shivdasani (2005), Shleifer and Vishny (2003), and Finegold, Benson and Hecht (2007). Agency theory propagated the thinking of improving governance through separating ownership and control, a structural perspective. Agency theory thinking was further refined through studies on board independence, in monitoring of the CEO, the number of independent directors, board size and CEO duality. Despite the extant of empirical investigations none of these studies yielded strong research results that impact the performance of the organisation or rigorously improved corporate governance practices.

As indicated above the main thrust of agency theory was to improve separation and control to make agents more accountable and align behaviour with company objectives. Agency theory thinking was further developed by Gill, Vijay and Jha (2009) and Shleifer and Vishney (1997) as a means of introducing internal or external corporate governance

mechanism to reduce managerial opportunism. The internal mechanisms developed to improve governance were the board of directors, ownership structure (managerial ownership), ownership concentration and disclosure.

Similarly Perry and Shivdasani (2005) advocated that the board of directors is one of the primary mechanisms for monitoring management in pursuit of attaining organisational objectives. Several studies were dedicated to assess the degree to which the varying characteristics of board structure could control management and therefore enhance the performance of the firm. However, there was no consistent evidence regarding these relationships. Some studies found a positive relationship between board characteristics and firm performance, some report no relationship while, some other studies reported a negative relationship between the board characteristics and firm performance. Likewise, the research by Finegold, Benson and Hecht (2007) highlighted the inconclusiveness of the relationship in their review on corporate boards and company performance.

Other governance theories emerged that demonstrated that monitoring is not the only role that boards play. Boards can also enhance company performance by providing strategic advice, securing external resources, developing managerial capabilities, and helping to manage the firm during a crisis (Johnson, Daily, and Ellstrand, 1996; Daily, Dalton, and Cannella, 2003).

Still other functions of the board debated in the extant literature. Boards can create access to valuable resources, act as a strategic advisor and navigate the organisation through recessionary climates. Pfeffer and Salancik (1978) Hillman, Cannella, and Paetzold (2000) and Erakovic and Goel (2008) highlighted that having critical resources needed by the firm can reduce uncertainty and transaction costs. Consequentially privileged information and access to scarce and critical resource, can give an organization a cost advantage over its rivals.

In addition, apart from the critical resources mentioned above, the board members can provide other resources like important information or knowledge and legitimacy to the organization (Pfeffer, 1972; Boeker and Goodstein 1991; Judge and Zeithmal, 1992; Huse, 2005; Erakovtic and Goel, 2008).

Still other governance theory focused on the effective board-management relationship. Resource-based view (RBV), a governance theory that emphasise that effective board-management relationship can be a rare and valuable resource that can create a sustainable competitive advantage (Erakovik and Goel, 2008). A number of scholars (Barney, 1991; Carney: 2005; Castanias and Helfat: 2001 and Gadhoum, 1998) argued that a resource that provides a sustainable competitive advantage satisfies certain measures. Some of the criteria alluded to by Barney (1991) is the capability to provide expert advice on strategic issues, director's valuable links with the external environment and the reputation of directors. The board-management relationship that develops and is sustained can be a source of competitive advantage for an organisation.

Antagonists like Donaldson (1990a & 1990b) and Barney (1990) proposed an alternative to agency theory, stewardship theory. This theory proposed that the CEO must be given complete power and authority in executing responsibilities and will consequentially result in good performance. This theory recommended that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged. Stewardship theory proposed that the executive manager essentially aims to do a good job and that there are no inherent general problem of executive motivation. The above scholars argued that the overarching philosophy is that good performance is attained readily where the CEO is also the chair of the board.

Unlike previous governance theories that focused on the board and its structure and resources, stakeholder theory has a socialist focus. Stakeholder theory caused increased pressure on board of directors to consider shareholders and the interest of stakeholders (Esser and Dekker, 2008). Board of directors are required to consider the

interest of employees, creditors, consumers, suppliers, the community and the environment when making strategic decisions.

Some empirical studies began to focus on board process variables and its relationship to increased board and company performance. Later research focused on process variables and its relationship to increased board and company performance. Studies looked at the impact that process variables had on performance of organisations. Some scholars (Korac-Kakabadse, Kakabadse and Kouzmin, 2001; Zahra and Pearce, 1989) agreed that board process refers to decision-making activities, styles of board, the frequency and the length of board proceedings and board culture. Studies on process variables explained how boards could perform even better and positively impact the performance of the organisation. The study of process variables had received little research attention as an alternative paradigm of thinking to agency theory. Several studies had begun to look at process variables and the improvement of organisational performance (Daily et al, Scarborough, Haynie and Shook, 2010; Zona and Zattoni, 2007; Wan and Ong, 2005; and others).

This study investigates board process variables and its relationship to board decision quality in Schedule 1, 2 and 3 Public Entities in South Africa. The study critically reviews board process variables including board independence, functional area knowledge, information quality, cognitive conflict, effort norms, and its relationship to board decision quality. Empirical studies have shown an inconclusive and conflicting relationship between these variables (Scarborough, Haynie and Shook, 2010). This study, proposes that board process is the gap in knowledge in the relationship between board structure, board activism, with the outcome being board decision quality and board performance.

1.2 Background to the study (problem in context)

In several Organisation for Economic Cooperation and Development (OECD) countries, including South Africa, Public Entities particularly (State-owned Enterprises (SOEs) still represent a substantial part of (gross domestic product (GDP), employment and market

capitalisation (OECD, 2010). Moreover, Public Entities are often prevalent in utilities and infrastructure industries, such as energy, transport and telecommunication, whose performance is of great importance to broad segments of the population and to other parts of the business sector (OECD, 2010). Consequentially, the governance of Public Entities is critical in ensuring their positive contribution to a country's overall economic efficiency and competitiveness.

From the above analysis it can be seen that the Public Sector contributes significantly to economic growth and development. Gordhan (2012) reflected on the weaknesses in the state's infrastructure capacity. In the past, spending had lagged behind plans. The spending according to budget for 2010/11 was R178 billion from the R260 billion budget, a 68% under-spending rate.

In accordance with the Gordhan (2012) the total spending by Public Entities reached R1.1 trillion by 2013, representing some 32 per cent of GDP. Fuzile (2012) in the Budget Review Report listed 43 major infrastructure projects, adding up to R3.2 trillion in expenditure. Over the MTEF period ahead, approved and budgeted infrastructure plans amount to R845 billion, of which just under R300 billion was in the energy sector and R262 billion was allocated to transport and logistics projects. Improved governance is required to ensure that there is quality of planning, costing and project management, so that infrastructure is delivered on time, and on budget.

The magnitude of poor governance cuts across all sectors and had also been prevalent in the Private Sector. Literature has shown that the biggest challenge that South African boards are facing is poor decision making (Motala, 2011). The repercussions of poor decision making are evident in both private and public entities and had catastrophic implications in some instances. For example, in the private sector, examples of poor governance practices are Pamodzi Mines, Wendy Machanik Properties and Fidentia. These companies had to liquidate as a result of poor decision making. For Pamdozi, the Joint provisional liquidator claimed R690-million from Aurora Empowerment Systems. Pamdozi Gold Orkney was found to be indebted to trade

creditors for R110 million. The secured creditor, Industrial Development Corporation (IDC's) indebtedness was R200m plus interest. The outstanding salaries and wages at the date of liquidation was R5m and R8m was owed for leave pay and other benefits. The total indebtedness in Pamodzi Gold Orkney as at date of provisional liquidation was R350m with interest (Motala, 2011). Besides the poor governance practises the board committed a further transgression was perpetrated by destroying company records and removing company assets. Despite being under curatorship and warned about further transgressions Pamodzi Mines removed assets to the value of R690 million from both Mines. Further Pamodzi's management was accused of damages to the Grootveli and Orkney Mines of R1.7 billion (Summers and Comrie, 2012)

A more recent example of poor corporate governance practice was the poor decision making and lack of financial oversight of Wendy Mechanik Properties. A successful court application was granted by the Estate Agency Affairs Board to place Wendy Mechanik Properties trust accounts under curatorship. This was as a result of financial irregularities in the management of the accounts involving at least R27 million. A forensic investigation revealed that the owner, Wendy Mechnaik channelled funds from a trust account to her company account to keep the business, a close corporation, afloat. According to Mabuza (2012) Wendy Mechanik, CEO pleaded guilty to 90 counts of theft totaling R27m, and two for failing to keep accounting records of her trust account.

Similarly, there are practices of poor governance in the Public Sector. It has been widely reported that the majority of South Africa's Public Entities, particularly, State-owned enterprises are loss making, have extremely weak balance sheet, low credit rating, inadequate capacity, weak corporate governance notwithstanding the regulatory framework of the Public Finance and Management Act 1 of 1999, the New Companies Act of 2008 and King 111 of 2010 (Tolsi, 2012 and Vecchiatto, 2014).

A number of governance transgressions in Public Entities were reported between 2009 and 2012. For example, the investigation by KPMG on South African Airways (SAA)

found that Mr Khaya Ngqula, former CEO of SAA, had exceeded his authority in several matters. Poor governance practices relating to paying retention bonuses and sports sponsorships without authorisation of the board. Under Khaya Ngqula SAA paid out bonuses of R60,7-million yet only approved R33,3-million was approved. In addition SAA resources were used by the CEO to take friends to three sporting events and hired suites at stadiums for social activities. Ngqula spent R141-million on sports sponsorships when only R3-million was budgeted for. These included a R120-million sponsorship of the Association of Tennis Professionals (ATP) and a R21-million sponsorship with Argentinian golfer Angel Cabrera. Ngqula was also accused of spending R3, 3-million without authorisation on leasing hospitality suites in four different sport stadiums in the country. Another allegation involved spending R500 000 on junkets for friends to international sporting events such as the 2006 Soccer World Cup in Germany, the 2007 Rugby World Cup in France and a 2008 ATP tennis tournament in Monte Carlo. The forensic investigation has raised questions about a jet fuel tender that was awarded to a company in which Ngqula allegedly has an indirect interest. Further tenders issued for call centres were not compliant with good supply chain management principles. Mr Khaya was held liable for repaying at least R30.8 million (Basson and Gedye, 2010).

More recently (Politicsweb, 2012) eight members of the SAA Board (including the chairperson) resigned followed by the resignation of the CEO. This was followed by yet another bailout of SAA. In November 2012 another incident of poor corporate governance arose at South African Airways. Litigation was brought against the Sizakele Mzimela for misspending. At the time of writing this dissertation the case was not finalised and hence the nature and amounts of the misspending was not determined (Department of Public Enterprises, 2013). The R5-billion bailout provided a guarantee for a period of two years starting from September, 1 2012. The guarantee would enable SAA to borrow from the financial markets, thus ensuring that the airline continued to operate as a going concern (Mail and Guardian, 2012).

Another example, of poor governance practice was Eskom. Eskom was put under scrutiny by National Energy Regulator of South Africa (NERSA) to establish if the tariff increase of 16% over the next five years was justified and whether the power utility was operating prudently (Pressly, 2013). In interviews with an investigative TV documentary, Carte Blanche, several unidentified employees of Eskom shared examples of wasteful expenditure. The examples quoted critical spares for repairs taking up to nine months to get delivered on site. Another example is that the development of the Kusile and Medupi projects was behind schedule resulting in penalties paid to the contractors. Furthermore the acquisition price of the power station increased between 3 to 5 times more than the original price as a result of scope changes. Another example of poor governance was that an entire project fee was used up in penalties before the project even started. Costs also spiralled beyond budget as a result of procuring stock in parts\pieces accruing costs in excess of 50% or more on tariffs instead of as a whole with a reduced amount of tariffs. The above poor practices of governance of Eskom in part contributed to South Africa's poor competitiveness rating of 53rd out of 148 countries (Schwab, 2014) in the Global Competitiveness Report, (2013 – 2014). South Africa's rating and economic and growth was adversely affected by rolling black outs. With hiking electricity rates South Africa's power supply rates is most expensive in the BRIC countries (De Wet, 2012). The high cost of electricity negatively affects economic growth and development.

1.3 Problem Statement

Public entities, and in particular, State-owned enterprises in South Africa are generally well positioned to contribute to transformation and economic development. This contribution by public entities is contingent on good governance policies, procedures, processes and practices to attract foreign direct investment. Besides being preoccupied with aligning governance to best practice, Public Entities have an added challenge of managing many complex relationships. Khosa and Adams (2005) contended that the governance challenge confronting state-owned enterprises had to do with creating a balance between government's inclination to control public enterprises and the business

imperative to achieve excellent performance. Government's focus on control rather than performance often reinforced these weaknesses in state-owned enterprises. They further argue that the success of state-owned enterprises depends on striking the appropriate balance between control and accountability on the one hand, and performance and entrepreneurship on the other.

Securing sustained growth of the international investor base required improvement in governance standards. To attract foreign direct investment required the improvement of South Africa's Corruption Perception Index rating. South Africa's board effectiveness and performance directly impact economic growth and development. Poor governance practices in South Africa have affected the competitiveness rating and the corruption perception index. In the Global Competitiveness Report (Schwab, 2013) reported that South Africa rated 52nd overall out of a number of 144 economies. The global competitiveness ranking is unpacked to determine the weaknesses that have contributed to this rating. In order to further improve its competitiveness, the country will need to address some weaknesses. A number of areas are cited for improvement, in particular, labour related issues (148), primary education (135), unemployment levels, infrastructure (66), crime prevention, labour market efficiency (116), corruption and health. The table below depicts the ratings in the Global Competitiveness Report (WEF, 2013-2014).

Table 1.1: Key indicators (WEF, Global Competitiveness Report 2013-2014)

MEASURE	RATING
Basic requirements (40.0%)	95
Institutions	41
Infrastructure	66
Macroeconomic environment	95
Health and primary education	135
Efficiency enhancers (50.0%)	34
Higher education and training	89
Goods market efficiency	28
Labor market efficiency	116
Financial market development	3

Technological readiness	62
Market size	25
Innovation and sophistication factors (10.0%)	37
Business sophistication	35
Innovation	39
Problematic factors that affects doing business in South Africa	
Inadequately educated workforce	19.7
Restrictive labour regulations	19.4
Inefficient government bureaucracy	19.3
Corruption	9.7
Poor work ethic in national labour force	7.7
Inadequate supply of infrastructure	7.0
Crime and theft	6.7
Policy instability	5.7
Access to financing	1.4
Insufficient capacity to innovate	1.4
Foreign currency regulations	0.6
Tax rates	0.4
Tax regulations	0.4
Poor public health	0.3
Government instability/coups	0.1
Inflation	0.1

Table1.1: Source: Global Competitiveness Rating (World Economic Forum, 2013-2014)

Examples of poor governance in Public Entities above and in chapter 3 show the magnitude of the problem of poor governance in Public Entities. Poor governance impacts performance of institutions causing low economic growth and development (Carte Blanche, 2012). As stated above continued economic development of South Africa hinges on the improvement of the corruption perception index and competitive rating. Economic infrastructure development worth billions has to be flawlessly managed in Public Entities to stimulate and instigate economic growth and development. Over the next three years, 2013-2015 infrastructural development has to be managed using good governance practices.

The State of South Africa's Economic Infrastructure: opportunities and challenges (2012) report acknowledged the need to manage the medium-term expenditure framework (MTEF) for the period 2012/13—2014/15, seventeen (17) strategic

integrated projects (SIP) with a total budget of R845 billion. This covered economic infrastructure of rail, ports, roads, electricity, water and telecommunications. In 2011 a Presidential Infrastructure Coordinating Commission (PICC) was formed to make decisions and coordinate the implementation of these projects. Two committees were already formed, namely, The Presidential Review Committee (PRC) on SOEs that aimed to align SOEs with the government's development agenda, including that of infrastructure development. In addition, the Presidential Infrastructure Coordination Commission headed by the President, sought to coordinate and oversee the implementation of strategic infrastructure projects that stimulated social and economic growth. If these infrastructural projects are managed in accordance with good standards of governance then economic growth and development would be instigated.

According to the Auditor General Report (2013) of the 536 entities audited for the financial year 2011-2012, only 22%, or 117, received clean audit opinions. Another pattern highlighted in the report was the stagnation and regression in audit opinions and a lack of leadership to improve governance. Further the report claimed that public entities are still plagued by continuing problems in supply-chain management, human resources, information technology systems and accuracy of reporting. Poor governance practices were identified in which contracts worth R438m at 47 entities were awarded to suppliers in which employees of the entity had an interest. Also contracts worth R141million at 42 entities were awarded to suppliers in which close family members had an interest, up from R136 million in 2011-12.

Continual improvement of corporate governance in Public Entities, particularly Stat-owned enterprises was and will be an increased focus for South Africa. The Public Finance Management Act 1 (1999), King III (2010), the New Companies Act and OECD Principles of Corporate Governance (2004) are the regulatory frameworks that are used to improve corporate governance in SOEs.

The obsession with improving governance required that a determination of the best governance approaches be adopted to effectively manage governance and improve performance. A discussion below reviewed the evolution of governance practice and theory, covering the strengths and weaknesses of the different approaches to governance. The approaches of governance span a continuum with agency theory on the one side and board process variables on the other side.

Traditionally, board research focussed on the link between board structure and performance. Empirical studies by (Zona and Zattoni, 2007; Wan and Ong, 2005; Daily, Dalton and Cannella, 2003; Bhagat and Black, 1999; Agrawal and Knoeber, 1996; Vance, 1995; Cochran, Wood and Jones, 1985; Zahra and Pearce, 1989) had shown that the relationship between board structure and board performance was equivocal. An evaluation of the work of previous scholars on board structure and board performance was briefly discussed. Johnson, Daily and Ellstrand (1996) and Zahra and Pearce (1989) argued that there was no agreement as to which structure led to what level of performance. Furthermore, these scholars contended that the relationship between board structure and company performance was best described as vexed, abstruse, contradictory, mixed and inconsistent. Further Johnson, Daily and Ellstrand (1996) also claimed that the link between board structure and financial performance might not exist at all notwithstanding a number of variables like the type of performance measures, size of firm or the nature of board composition. Or alternatively they scholars argued that if there was a relationship, the degree may not be of practical significance. Likewise, Kesner and Johnson (1990) claimed that boards do not directly affect firm performance because they do not participate in the daily decision making.

As noted above there had been various models that was used to improve corporate governance with mixed and varied results. The performance of companies had been judged and monitored from the perspective of a number of variables – separating the principal and agent roles (Jensen and Meckling, 1976; Fama and Jensen, 1983). A few studies identified a positive relationship between the percentage of outside directors and firm performance (Pearce and Zahra, 1992; Daily and Dalton, 1993; Ameer, Ramli

and Zakaria, 2010), while other studies found no significant relationship between board composition and company performance (Daily and Johnson, 1997; Hermalin and Weisbach, 1991); the size of the board and the demographics of the board, (Dey and Chauhan: 2009) board structure (Finegold, Benson and Hecht: 2007) and CEO duality (Rhoades, Rechner, and Sundaramurthy: 2000). A review of previous studies by Ong (2001) showed an inconclusive correlation between inside-outside directors and company performance. In two separate studies (Vance, 1995; Cochran, Wood and Jones, 1985) found that inside representation in manufacturing and industrial firms was positively associated with financial performance. Conversely, Schmidt (1975) and Kesner (1987) found no relationship between inside-duality and firm performance. In a review of the proportion of outside directors, (Chaganti, Mahajan and Sharma, 1985; Zahra and Stanton, 1988) found no relationship to the financial performance of the organisation. On the contrary, Agrawal and Knoeber (1996) found a negative relationship between the number of outside directors and financial performance.

Similarly, Finkelstein and Hambrick (1996) conclusively argued that board composition and structural elements improbably had a significant effect on firm performance. Finkelstein *et al* (1996) advanced the argument firm performance was influenced by too many intervening processes to expect a strong direct association between board structure and firm performance. Consequentially, the impact of board structure on firm performance may be multifaceted. Heracleous (1999, 2001) in assessment of the extant literature found that the diverse outcomes are in part attributed to methodological and theoretical issues. In particular there was a lack of focus on group subtleties, the recognition that complexities of board are mediated by the size of the board, board characteristics are varied and its relationship to firm performance.

This gap in knowledge suggested further consideration of the mediating/intervening process variables that affected board performance levels. (Scarborough, Haynie and Shook, 2010; Wan and Ong, 2005; Ong and Wan, 2001; Sonnenfeld, 2002; Forbes and Milliken, 1999) that board structure and the intervening variables (board process) are

considered as an integrative conceptual model that resulted in board performance. This study proposed an investigation of board process variables as moderating variables that impact board outcomes and lead to better board decision quality and the consequence will be improved board performance.

In recognition of the intervening variable, board process, scholars Phan (1998) and Buchanan and Huczynski (1997) argued that board performance will emerge as a result of the recognition and tailoring of processes that is sustenance for the structure. Buchanan *et al.* (1997) based on the understanding of teams noted that the performance of a team\group was a consequence of structure and process. For optimal performance, board process dimensions, like status, power, role status, communication structures and decision-making must be analysed. Daily, Dalton and Cannella (2003), and Dalton, Daily, Ellstrand and Johnson (1998) too agreed that there was a substantial body of empirical studies on the relationship of board composition and performance however, less consideration and empirical investigation attributed to the study of process variables. In earlier research Daily *et al.* (2003) advocated for complementary research efforts utilising process variables.

In the extant literature the study of board process variables had evolved from being fragmented to the development of board process models (Scarborough, Haynie and Shook, 2010; Maharaj, 2009; Zona ad Zattoni, 207; Wan and Ong, 2005; Ong and Wan, 2001). In addition, the above studies covered varied variables of board process, namely, effort norms, functional skills and knowledge, cognitive conflict, information quality, board activism and board decision quality.

Previous studies on board process variables was analysed to assess the relevance for the inclusion in the study of board decision quality. A study by Scarborough, Haynie and Shook (2010) found that board activism and effort norms improved decision making hence resulting in good performance of the organisation. Board activism is a measure of the range of a board's duties and the degree to which a board actively participates in

the matters of the organisation. These activities relate to attending board meetings, performance evaluation of the CEO; reviewing board reports, participating in the development and monitoring strategic direction, directing audit activities, ensuring compliance to legal and governance regimes, an assessment of financial and operational performance, approval of budgets that relate to capital and operating expenditure and approving organisational strategies like downsizing and mergers and acquisitions (Lorsch and MacIver, 1989; Salmon, 1993; Zahra and Pearce, 1987; Copeland and Towl, 1947; Conger, Finegold and Lawler, 1998; Blair, 1950; Baker, 1945). Furthermore, in the extant literature, effort norms had a positive relationship to organisation performance. Effort norms as defined by (Wageman, 1995; Kanfer, 1992) referred to the intensity of individuals' task-performance behaviour. The antecedents discussed in the extant literature of effort norms was to carefully scrutinise board packs and related information, doing research and investigate issues significant to the company, take records of issues at meetings and actively participate in board meetings (Wageman, 1995). Another definition of effort norms provided by Kanfer (1992) was the shared beliefs of a group of the performance of a task; amount of time; vigour of individual behaviour or total cognitive behaviour towards the target task. Norms referred to a set of expected behaviours by the group (Goodman, 1986); sufficient time for duties and the research of relevant information in preparation for board meetings to increase performance (Lorsch and MacIver, 1989).

The board process variable, functional knowledge\skills positively impact organisation performance. Previous studies were analysed in this regard. Research done by (Scarborough *et al.*, 2010 and Zona and Zattoni, 2007) found empirical support for the affirmative link between functional area knowledge and board activism which was consistent with the findings of previous research. The study of Scarborough *et al.* (2010) highlighted the importance of quality decision making and its effect on board activism. The study however did not look into dimensions or factors that affect board decision quality. This gap in knowledge was pointed out by Scarborough *et al.* (2010). The authors even went as far as suggesting an investigation into the antecedents of

board decision quality, as an avenue for further research. This study was guided by two research questions: (1) What processes do SOE boards follow in making good quality decisions? How are board processes linked to board decision quality?

The analysis above of governance models based on structure to the studies that focus on board process magnifies the research gap, the antecedents of board decision quality. Hence the study will explore the process variables that influence board decision quality.

1.4 Research objectives

1.4.1 To explore from the perspective of board members the variables that influence quality board decisions.

1.4.2 To explain the strength and direction of the relationship between board process variables and board decision quality.

1.4.3 To determine if director independence mediate the relationship board process variables and board decision quality

1.4.4 To develop a model that explains the effect of board process variables on board decision quality

1.5 Research Questions

How and why should Public Entities achieve board decision quality to optimise performance and become sustainable?

Sub-questions

1.5.1 What are the factors that affect board decision quality?

1.5.2 What is the strength and direction of the relationship between board process variables and board decision quality?

1.5.3 Do board process variables mediate the relationship between director independence and board decision quality?

1.5.4 What effect does the three variables have an effect on board decision quality?

1.6 The Hypothesis

Table 1.2 provides a summary of the study hypotheses on board decision quality

Hypotheses	
H ₁	There is a positive relationship between director independence and level of effort norms displayed by public entity boards.
H ₂	There is a positive relationship between director independence and level of cognitive conflict displayed by public entity boards.
H ₃	There is a positive relationship between director independence and usage of knowledge and skills by public entity boards.
H ₄	There is a positive relationship between director independence and the level of information quality used to make board decisions.
H ₅	There is a positive relationship between director independence and board quality decision
H ₆	There is a relationship between board process variables and board quality decision

Table 1.2: Hypothesis of board decision quality

1.7 Empirical investigation

This study will investigate board process variables with a specific emphasis on board decision quality by reviewing the constructs, board independence, functional area knowledge, information quality, effort norms and cognitive conflict and its relationship to board decision quality.

This study followed the sub sector approach, which means that only enterprises in one sector (public sector) will be selected and analysed. This approach prevents the methodological challenge of distinguishing between enterprise and sectoral issues.

To respond to the research questions, a combined or mixed research approach was selected for the study. A phenomenological (qualitative) and positivist (quantitative) research approach was used to obtain a greater understanding of the research

questions. This perspective and research approach was adopted because the literature on board process, board activism and board decision quality was not well developed in the extant literature.

Below the empirical investigation was discussed per objective with reference to research methodology, research respondents, the measuring instruments, the procedures for collecting the data and the data analysis.

For objective 1, to determine the factors of board decision quality, directors of boards were interviewed and focus group interviews were conducted. The study had two phases, namely, the first phase was to explore the factors that contribute to board decision quality through a qualitative methodology in the use of focus group interviews and individual interviews. The first phase of the research used an exploratory approach to unravel and deepen the understanding of the phenomenon board decision quality. To gain a deeper understanding of the phenomena, board decision quality literature was reviewed, experts were interviewed and the administration of focus group interviews was conducted. The study was reinforced through interviews with board members of state-owned enterprises and corporate governance experts that support public enterprises to add a meaningful, abundant layer to the understanding of the dimensions of board decision quality. The measuring instrument was a structured interview which focussed on the processes, procedures and systems to measure board decision quality. For the purpose of data analysis thematic analysis (content analysis) was done to determine the themes related to board decision quality. Ethical procedures, protocols and standards were adhered to in conducting the research. Informed consent was obtained from research participants, anonymity and confidentiality was maintained.

For objective 2 and 3 a positivist approach was used to develop the epistemological framework for conceptualising this study and the procedures carried out to build the board decision quality model. For the quantitative approach a survey method was used to collect data in an attempt to precisely measure board decision quality and to

determine the relationship between board process variables and board decision quality. To guide and focus the study the positivist research design was used, research questions were identified, hypothesis, identification of sampling strategies, research strategies and methods of analysis were formulated. Thus the linkage between theory and investigation was inductive in the case of qualitative research and deductive in the case of quantitative research.

1.8 The importance and contribution of the study

This study makes several contributions to research on corporate governance in general and board decision quality. First, it improved the understanding of board process and board decision quality. Scarborough, Haynie and Shook's (2010) research explored the effects of board structure and board process variables on board decision quality. The variables examined by Scarborough *et al.* (2010) were functional area knowledge, independence, cognitive conflict, information quality, and effort norms.

Secondly, the contribution of the study is the development of a measure for board decision quality.

Thirdly, the outcome of this research can be used by the corporate governance practising community to improve governance practises in terms of decision quality process of boards. Furthermore, the guidelines and model adds to the body of knowledge of governance in State-owned Enterprises.

Finally, another contribution to assess, through research, the measures of board decision quality and propose strategies to develop board quality decision.

1.9 Structure of the dissertation

Chapter 1 covers the background to the research problem, significance of the study, aims of the study, objectives of the study, research questions, problem statement,

synopsis of the methodology, significance of the study, limitations of the study and the format of the rest of the study.

Chapter 2, the theoretical foundation covers the theories that underpin board process variables, governance models, decision models and board decision quality. As such, the chapter provides the first anchors on which to build a foundation for this work.

Chapter 3, the literature review covers an unyielding base from which relevant theories, models and concepts are used in governance. International and South African governance convention, policies, procedures and practises are analysed. From an evolutionary perspective a number of theories are discussed.

The literature review was structured in accordance with an eight process. The steps taken in the literature review were as follows: The steps taken in the literature review were as follows: (1) The concept of governance was defined from several perspectives. The objective of this section was to illuminate a thorough understanding of what is meant by the word governance and to describe how it will be used in this research. This relates to conceptual validity of the proposed measure; (2) The literature provided a description of how the concept relates to others variables (like board process variables – effort norms, cognitive conflict, functional area knowledge, information quality). In this part, the theories and models of governance regarding the concept are presented. This information was used as a basis for making comments regarding the concurrent, discriminate and possible predictive validity of the proposed measure; (3) further refinements in Step 3, a process to compile several lists of the elements, if any, of which the concept comprises. Here, the objective was to identify the building block of the concept. The goal was to find the elements that needed to be included in the measure. This relates to the construct validity of the measure; (4) Notes were recorded of the validity and reliability of a measure and the characteristics of a good measure and its items; (5) A list of board process measures used in other studies was collated to describe the measures of board process variables. The idea in this section was to find

a measure that could possibly be used to measure board decision quality in the local context, or model items to be included in a new measure. (6) The process is refined to in Step 6, by describing how the measures relate to the elements of the concept, board process variables. In step 6, the measures found were evaluated to determine construct validity by revisiting step 3. (7) A description was generated on how the measured concept relates to other variables. With step 7, a search for information regarding the criterion-related validity of the existing measures is made. Here, the intention was to find journal articles that indicate the theoretical explanations that are supported by empirical findings. (8) A measure or pool of items is suggested as a measure of the concept.

Step 1: The concept from several perspectives.

Chapter 4 covers the research design for the study. This study seeks to address two research questions: (1) What processes do public entity boards follow in making good quality decisions? How are board processes linked to board activism? To address the research questions, a mixed research approach was selected for the study. The phenomenological (qualitative) and positivist (quantitative) philosophical paradigms were adopted with the purpose of obtaining a greater understanding of board quality decisions in the SOEs. The chapter is divided into seven parts. The first part looks into the design of the study. The second part provides the epistemological perspective of the study. The section also links the research questions to the study approach, thereby giving rationale for the study approach adopted. This is followed by a discussion on sampling issues (part three). In the fourth part of the chapter the qualitative and quantitative data collection instruments are presented. This section also includes a discussion on how issues of bias were dealt with. The fifth part of the chapter presents the analytical tools used to analyse both the qualitative and quantitative data. Validity and reliability issues are then discussed (part six) followed by the final part of the chapter that looks into how ethical issues were handled.

Chapter 5 covers the findings of the qualitative and quantitative research, analysis and interpretation of all the collected data. Theory on board process is used as a base to interpret and critique the findings. This analysis is done within the ambit of the research question

Chapter 6 covers the researcher's contributions and recommendations in the form of a model through which the research question can be answered. Through a discussion of the limitations of the study, future areas of research are identified by the researcher.

1.10 Conclusion

This chapter has established the state of governance theories and their relationship to board activism, board decision quality and board performance. Board process was less researched whereas board structure was exhaustively researched to improve board performance. Arguments were advanced for the improvement of governance to positively impact board performance. This research sought to analyse and draw insights about the governance practices in Public Entities. A deeper understanding was cultivated that board performance was attained through board decision quality which was influence by board process variables. This chapter highlights the importance of the growth to a national economy and why it was a worthwhile endeavour to analyse the dynamics of board functioning and process. It then presents the structure of the whole research and the definition of the key terms and concepts. This chapter therefore sets the ground for the remaining chapters. Chapter one provides a guide on what literature to review and the selection of a research methodology and design for the study.

CHAPTER 2: THEORETICAL FOUNDATION

2.1 Introduction

The background (Chapter 1) reflectively opened up a number of emerging themes or constructs and thus initiated an unravelling of the underlying research issues. Further the chapter attempted to unravel the underlying research complexities through the review of board research, models and theories. Poor corporate governance practices in South African Public Entities affected the competitiveness rating of the country, and literature too cited poor decision making processes as a substantial contributor to poor corporate governance (Singh and Msweli, 2012).

Making high-quality decisions are important for an organisation's board of directors to ensure growth and sustainability. In accordance with Andringa (2004) board members have extensive commitments and restricted time to devote to the strategic orientation and hence, the need to review the productive use of time to make quality decisions become important. Inevitably, to achieve this, boards must pay attention to board activism and board process to attain high-quality board decisions. The current literature neglected the relationship between board process (effort norms, cognitive conflict, and information quality and board activism), and board decision quality for organisations (Scarborough, Haynie and Shook, 2010).

The board was directly responsible for making high level decisions that affect the future direction and sustainability of the organisation. Indeed, there was increasing pressures on boards to determine the future direction of the organisation through involvement in strategy formulation, advice, counsel and to monitor the implementation of strategy (Payne, Benson and Finegold, 2008; Roy, 2008; Useem, 2003; Felton and Watson, 2002; Stiles, 2001; Golden and Zajac, 2001; McNulty and Pettigrew, 1999; and Finkelstein and Hambrick, 1996).

The research done by Scarborough, Haynie and Shook's (2010) concentrated both on structural and process variables. The structural aspects of the study focussed on duality and independence whilst the process variable, effort norms, in relation to board activism. A considerable body of research highlighted the ambiguous relationship between board structure and performance (e.g., Daily, Dalton and Cannella, 2003; Dalton, Daily, Ellstrand and Johnson, 1998). However, in the extant literature less consideration was attributed to the effects of board process variables on firm performance. Daily *et al.* (2003) highlighted the need for further research on board process variables. The significant shift in the extant literature paved the way to fully explore the antecedents of board decision quality.

Research done by Zahra and Pearce (1989) confirmed that boards do not adequately fulfil their legally mandated responsibilities. The study revealed that executives do not ask discerning questions about company performance and goals, fail to review managerial decisions and evaluate the consequences of merger and acquisition decisions. Zahra and Pearce (1989) also believed that managerial domination of boards is seen as having resulted in inadequate attention to board processes. Equally Wan and Ong (2005) argued empirical research demonstrated that the relationship between board structure and firm performance is equivocal. Ong and Wan (2001) introduced the notion that board performance was multifaceted and was not only dependent on the board structure. From the multi-dimensional perspective Ong *et al.* (2001) argued that an integrative conceptual model bests captured all the variables that influence firm performance, a consideration of both structural and process elements. Although the literature on board process was scant, studies emerged by Zona and Zattoni (2007) that the involvement and influence of boards within the host firm will be mediated not only by external conditions and the structural features of boards, but also by board processes, motivation and skill. An instrumental study done by Scarborough, Haynie and Shook (2010) on board process variables found empirical support for the affirmative relationship between the board process variable, functional area knowledge and board activism and a strong association between effort norms and board activism.

For this study and depicted in figure 2.1 below five process variables were identified, largely based on existing research by Scarborough, Haynie and Shook, 2010; Spetzler, Arnold and Lang, 2005; Wageman, 1995; Kanfer, 1992; Forbes and Milliken, 1999 and Zahra and Pearce, 1989. The proposed study seeks to investigate the relationship between the board process variables, effort norms, conflict, independence, knowledge/skills, information quality and cohesiveness and board decision quality. The diagram below depicts the variables that influence board decision quality. It is hypothesised that board independence (structure) and board process variables (efforts norms, knowledge\skills, cognitive conflict and information quality) positively influences board decision quality.

Figure 2.1: A model for board decision quality

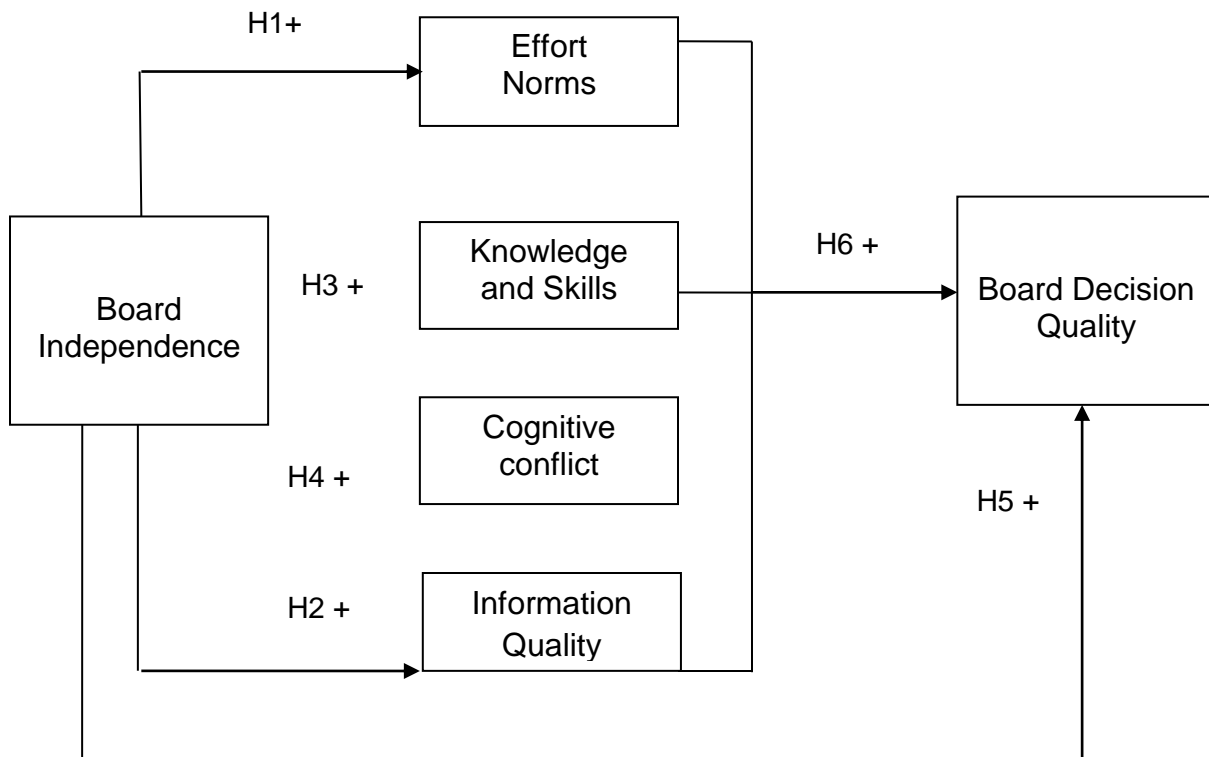


Figure 2.1: Proposed model for board decision quality

Below literature that cover board process variables were reviewed to identify the research gap.

2.2. Decision process

Decision process had been studied from different perspectives. Herein, below a group decision process theory, garbage can theory was discussed. Garbage can theory covered the full ambit of information interpretation and the management and distribution of information (Daft and Wick, 1984). This theory further unravelled how decisions are made, and how group members interact. Huse (2007) encouraged adherence to decision making procedures that culminated in successful decision-making. Garbage can theory was instigated by Cohen, March and Olsen (1972) in that board dynamics or chaos is ingredients of the process. Problems, issues and feelings are dumped by participants into a garbage can as ideas are generated. Daft and Wick (1984) proposed that this theory was well suited for decision making in that it was non-linear, more adhoc and improvisational.

Research by Wooldridge and Floyd's (1989) found that consensus emerged from accepting of a strategic decision and pledge to it, which increased its probability for implementation because consensus and decision quality are treated as dependent variables. Parayitam and Dooley (2007) proposed that further research was needed to determine harvests such understanding, and in turn, produced decision consensus and quality.

Similarly, Huse (2007) agreed that information gathering and decision-making was reliant on decision-making structures, procedures and rules. Aligned to behavioural theory Huse (2007) proposed the development of a decision making procedure which entailed three components. The decision making procedure variables are *decision criteria* (identification of issues are worthy of attention); *decision processes* (the routines and consideration in the group); group dynamics (managing conflict and promoting understanding) and decision outcomes (factors that result in high board decision quality).

2.2.1 Decision criteria

Building on the framework proposed by Huse (2007) on decision criteria (Engel, 2011) suggested that boards focus on strategic issues of high magnitude, high uncertainty or with high political ramifications. Likewise Coleman (2007) identified criteria for cognitive aspects of decision-making, namely, decision magnitude, uncertainty surrounding the decision, threat or catastrophe associated with the timeliness of the decision and how the decision developed. Taylor (1996) agreed that Board members should focus on advancing their organisation's mission and long-term welfare. To develop their effectiveness, boards should focus on vision and mission of the organisation and the consequences thereof (Mintzberg *et al.*, 1976).

2.3 Board Process Studies

The literature covered below by a number of scholars on decision process focused on decision routines, group dynamics, decision steps, dialectical inquiry, devil's advocacy, consensus seeking and procedural justice (Engle, 2011; Coleman, 2007; DeSanctis and Gallupe, 1999; Judge and Zeithami, 1992; Hosking, 1991; Schweiger, Sandberg and Ragan, 1986; Nutt, 1984; Schwenk, 1982b, 1984; Cosier, 1978, 1980; Cosier and Aplin, 1980; Schwenk and Cosier, 1980; Cosier, Ruble, and Aplin, 1978; Mitroff, Barabba, and Kilmann, 1977; Mintzberg, 1976; Lourenco and Glidewell, 1974).

Amongst the literature on decision process, Mintzberg (1976) is an authority on decision routines. Figure 1 depicts the 25 decision processes that emerged from the research of Mintzberg (1976) and refined by Coleman (2007), DeSanctis and Gallupe (1999) and Nutt (1984). Further refinement of the decision steps by Mintzberg (1976), Hosking (1991), Judge and Zeithaml (1992) too illustrated decision-making processes in three phases, namely, issue identification and framing, development and selection, and implementation.

2.3.1 Decision Steps Model

Figure 2.2: Decision Steps Model

DECISION STEPS

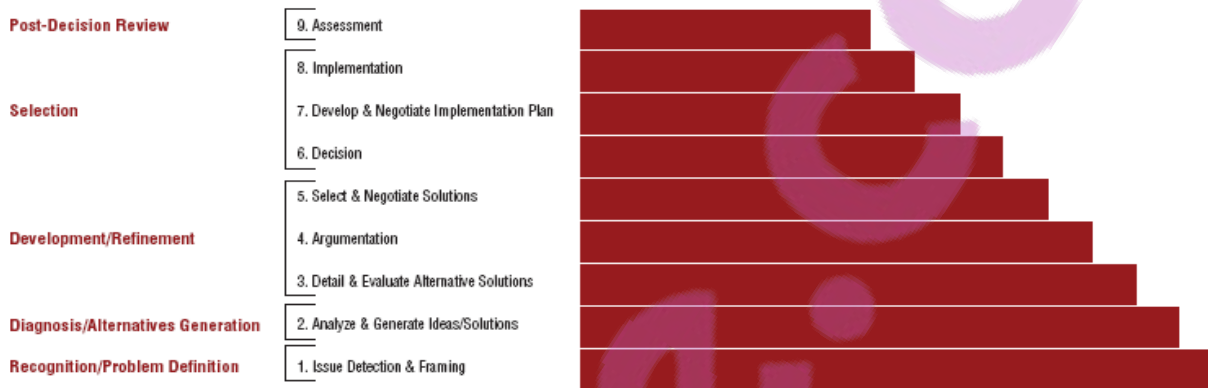


Figure 2.2: Source: Judge and Zeithaml (1992), Decision Steps Model

Engle (2008) postulated that although Judge and Zeithaml (1992) portrayed the decision step model as a linear model in which the board navigated the decision process, alternatively board deliberation of consequential issues navigate in a recursive pattern. Engle (2011) extended this analysis beyond the realm of decision process to board member's commitment to the decision and the quality of the decision. Further, both the board member's commitment and the quality of the decision benefit from decision routines that enrich board decision quality. Other thinking on decision process covered consensus seeking, dialectical inquiry and devil's advocate. Janis (1972) and Brodwin and Bourgeois (1984) agreed that consensus-seeking groups frequently avoid uncertainty and are prone to prematurely smooth over conflict and prefer harmony in the group than critical evaluation. Bourgeois (1985) examined the effects of consensus on company objectives in top management teams and found a negative relationship between this consensus and company financial performance. Dean and Sharfman

(1996) asserted that the decision process entails a collection and analysis of information relevant to the decision to make a choice and reach consensus. Similarly, Choo (1996) agreed that complexity and uncertainty is eminent in adhering to routines and decision procedures.

Scholars contributed to the debates for improving decision quality through other models like devil advocacy and dialectical inquiry. These approaches are discussed below.

2.3.2 Devil Advocacy Approach

In the devil's advocacy approach, a person within a decision-making group is appointed to critique a preferred plan or strategy. This person attempts to point out weaknesses in the assumptions underlying the plan, its internal inconsistencies, and problems that may lead to its failure. In such circumstances, the devil's advocate acts, in effect, as a good trial lawyer, presenting his or her arguments against the majority position as convincingly as possible.

2.3.3 Dialectical Inquiry

A derivative of devil's advocacy, called dialectical inquiry, in which, members with similar views are divided into sub-groups but different problem solving capabilities to generate a wide variety of solutions. The subgroups proceeded to develop alternatives to the recommended strategy, largely by identifying and criticizing the assumptions on which it was based. The most critical part of dialectical inquiry was the identification of the pivotal assumptions on which a recommended strategy was based.

The research done by (Mason and Mitroff, 1981) found that constructive conflict is used in group decision-making in both dialectical inquiry and devil's advocacy. Mason and Mitroff (1981) argued that through the process of formalised argumentation and debate among top manager's assumptions and recommendations are systematically evaluated and the strengths and weaknesses of each are made explicit. Qanis (1972) cautioned that although conflict deepens the dialogue results in quality recommendations and decisions. Conversely, that in structured conflict the inherent argumentation and debate

can lead to damaged feelings. Further Qanis (1972) claimed that feelings of rejection, depression, and anger might be evoked and can have a corrosive effect on morale and working relations within the group.

2.3.4 Procedural Justice

Another dimension of board process was procedural justice, the fair treatment of all participants to produce positive decision outcomes and the fairness of the decision making process in the application of decision routines (Tyler and Blader, 2000). Consistent adherence to procedural justice principles ensured that individuals can identify with an outcome with which they disagreed if they assess the decision-making procedures to be just (Tyler and Balder, 2003). Tyler and Balder (2000; 2003) acknowledged that there was an array of behavioural characteristics that emerge in a group setting, on a continuum from politeness, rudeness, respectfulness or with hostility, and so on. Through the research of Tyler and Balder (2000; 2003) there was recognition that procedural justice and decision routines influence the decision outcomes.

2.3.5 Group Think

Groupthink created in-group pressure to conform and a deterioration of conceptual efficiency, reality testing, and ethical judgement (Janis, 1983). Other definitions argued by Maharaj (2007), when receiving information, persuasion and pressure by board members may yield thinking patterns and opinions of conformity. Similarly, groupthink occurs when a person's thought process and decision-making capabilities become heavily influenced by peer pressure (Maharaj, 2007).

Janis's (1972) contribution to the concept group think was that problems in decision making processes was caused by excessive consensus and similarity of views in groups. In boards of directors, the biases, assumptions and limitations of the chairperson or CEO may not be checked or challenged as a result of groupthink behaviour. According to Mills (1985), such boards may consider too few alternatives to those recommended by the CEO. They also tended to make less effective use of

experts, paying more attention to information that supported the CEO's thinking and position.

Janis (1972) and Mills (1985) proposed that group think manifested and was identified through six symptoms. These symptoms included: (1) the illusion of invulnerability, which may cause the board to underestimate the risks of a particular course of action; (2) collective rationalisation, which may lead the board to misinterpret signals that a change was needed; (3) a belief in the inherent morality of the group lead the board members to ignore ethical, legal, and commercial consequences of a strategy; (4) a stereotyped view of rivals or out-groups that may limit the accuracy of the board's perception of competitors or of company critics; (5) pressure on any group member who dissents; (6) self-censorship of doubts and minority opinions, which helped the individual to relieve his or her doubts and removes the discomfort of doubting.

Schwenk (1989) proposed three approaches to challenge group think, namely, controversy, basic devil's advocate and multiple advocacy. Tjosvold (1985) defined controversy as a kind of conflict that occurs in decision making when one person's ideas, opinions, conclusions, theories, and information are incompatible with that of another. Schwenk (1989) recommended some principles to improve board decision making: (1) Firstly, the chairperson to actively encourage dissent. Directors should be urged to express their own views, especially if they differ from those of the chairperson. The chair may even decide to adopt the role of custodian of unpopular views as it is used in multiple advocacies. (2) Secondly, the chairperson may wish to assign one or more directors to play the role of devil's advocate for important decisions in which there is apparent unanimity among the board. Both Schwenk (1989) and Tjosvold (1985) provide some decision routines to observe in the decision making process. Those who play the role of devil's advocate should observe decision routines: namely, (1) to identify the critical assumptions underlying the proposed course of action, to carefully evaluate each of these, and to focus the critique on those that are least defensible; (2) play the role of a process consultant interested only in improving the decision by identifying

questionable assumptions (3) seek information from outside experts who are not members of the board; (4) board members who might have different opinions than the chairperson should be sought out and perhaps asked to help prepare the critique; (5) when disagreement already exists on a proposed course of action, the chairperson should use the principles of dialectal inquiry to ensure that this disagreement is productive; (6) the role of devil's advocate should rotate among board members and (7) devil's advocacy must be used for complex decisions and not for all decisions routinely.

Later Maharaj (2007) provided a comprehensive analysis of the impact and consequences of group think. In accordance with a qualitative study, Maharaj (2007) on board process variables provided an analysis and consequence of group think behaviour. In the analysis of group think behaviour board members are so absorbed on their own discourse (groupthink) that a holistic synopsis is not considered of all the facts and figures. The narrow focus may prevent a full analysis of information from the external environment to make better informed decisions. Maharaj (2007) further argued that may cause the group to overestimate their power and morality, causing behaviour that disregards the ethical or moral consequences of decisions. This behaviour can create a delusion of immunity, excessive optimism, and may encourage risk taking behaviour. Consequentially, this isolated and concealed behaviour may prevent the group members from appraising options using due diligence and fully considering warnings or other information as a result of pressure to conform. In accordance with Maharaj (2007) the implication is the emergence of a bullying culture disguised as cohesiveness. Another ripple effect was that this intense pressure may cause the group members to suppress their opinions and criticisms for fear of being different, marginalised and victimised from the group. The silence or non-responsiveness behaviour of board members may be considered as consent among the group members. A statistical analysis of the relationship between values, groupthink, knowledge and decision-making showed that values and groupthink have a dominating effect on knowledge in predicting decision-making (Maharaj, 2007). Variation in decision making was caused by differing values and groupthink.

Another contribution by Maharaj (2007) in her analysis of board process variables distinguished between board members as consensus-builders or conformist.

Consensus-builders are directors who use their superior conflict resolution skills to ensure that there is sharing of information; board members as a team need to be motivated to serve as members, in the best interest of the shareholders. Conformists are board members that are cooperative, supportive, maintain the status quo directors and retain their position due to past successes or relationships.

The Devil's advocacy, dialectical inquiry and procedural justice approaches are similar to the board process variable, cognitive conflict. The principles that underpin these approaches could be applied to board decision quality.

Similarly, groupthink behaviour will significantly impact the quality of the decisions taken by the board. Groupthink is the inverse of the of the board process variable, cognitive conflict. Some of the recommended strategies to counter group think behaviour can be applied in the study to encourage cognitive conflict behaviour.

2.4 Board Context

Various researchers conducted board process research for more than two decades (Mangham and Pye, 1991; McNulty and Pettigrew, 1999; Pettigrew, 1992; Pettigrew and McNulty, 1995; Pye, 1995, 2002b). The research by these scholars focussed on variations in context to expose differences in the dynamic interplay of practices, processes and performance over time amongst board members. Some authors had drawn attention to context in terms of board process, performance and board effectiveness (Hercleous, 2001; Pettigrew and McNulty, 1995 and Pye and Camm, 2003b).

Research done by Bonn and Pettigrew in (1987) distinguished between inner and outer context: where inner context refers to factors from within the organisation, namely, structure, culture, power and political characteristics; and outer, to factors external to

the organisation such as industry sector, economic, political and social context. Important aspects of the outer context included namely (1) the extent of regulation in the industry in which an organisation is located; (2) the ownership structure and investor relationships with the board; (3) the presence of other influential stakeholders, e.g. lobby groups outside the organisation; and (4) the potential for mergers and acquisitions activity. The research identified important elements that affect the inner context, namely, (1) commercial requirement of the organisation to develop new core competencies or strategic direction; (2) level of perceived trust in the board, as viewed by insiders and outsiders; (3) life cycle of the company and of the board and its culture\stage of board development.

The research done by Pye and Pettigrew (2005) focused on the effectiveness of boards by concentrating on context, process and time, which are crucial to understanding board dynamics. The paper concluded that there are still much more to be researched in this area and encouraged work that explored variation in board process and director effectiveness in different organisational contexts, as well as seeking to go beyond the board to address their impact and effectiveness in the broader organisational and external context.

Pye and Pettigrew (2005), in the critique and review of the research done by Robert, McNulty and Stiles (2005) identified context, process and time as variables that affect board performance. Pye and Pettigrew (2005) illustrated the significance of considering that boards operate in a unique environment comprising different pressures, in which decisions and actions are taken at a particular time, against a particular historical legacy and set of future strategic ambitions with different performance indicators given priority, hence different drivers and constraints on action and evaluations of board performance.

2.5 Individual and collective inputs, outputs and outcomes

A second area that was identified for further examination was the ambiguity between individual and collective characteristics, conduct, behaviour and effectiveness. It was difficult to disentangle individual and collective inputs, outputs and outcomes. Many

authors noted (e.g. Forbes and Milliken, 1999; Katzenbach, 1998; Mangham and Pye, 1991; Pettigrew and McNulty, 1995; Sonnenfeld, 2002) boards outputs are often less than the sum of the parts. In the extant literature effective boards was best defined as more than a summing of individual contributions. The dynamic of different people working together in a board-level way adds value to the organisation. This element of board performance is still largely under-researched, and remains poorly theorised.

2.6 Group Dynamics

Another construct, group dynamics, identified by Engel (2008) included managing conflict and promoting understanding. Engel (2008) conceded that conflict is linked with decision quality. Further he made a distinction that conflict and decision making in the corporate arena is a more linear and hierarchical process. Despite the criticism levied against the consensus approach in decision making; it is highly valued in the non-profit community (Engle, 2008; (Mintzberg, Raisinghani and Theoret, 1976).

An earlier research study by Torrance (1957) found that diverse thinking and disagreement of individual board members improved decision accuracy by generating a range of judgments to be considered. Similarly Schweiger and colleagues (1989) reported that consensual decision making generated a less antagonistic and belligerent environment. Dooley and Fryxell (1999) explained that an effective approach would be to sequentially stage dissent and support to reconcile the contradiction that dissent presents. Dooley *et al.* (1999) argued that dissent should precede an actual decision and consensus building should ensue after the decision is made. Instead Dooley and Fryxell (1999) advocated the position, that strategic decision-making teams should synthesise the contradictory forces of dissent and consensus during the strategic decision-making process.

The antecedents of group dynamics in the form of conflict and the promotion of understanding are related to the process variables of cohesiveness and cognitive conflict.

2.7 Decision Outcomes

Several studies on decision quality and decision consensus were undertaken within the commercial environments (Amason, 1996; Dooley and Fryxell, 1999; Parayitam and Dooley, 2007). Research was also conducted by Wooldridge and Floyd (1989) on decision outcomes, with a focus on two variables, namely, decision quality and decision commitment. These scholars asserted that consensus reflected a members' understanding of a strategic decision while commitment increased the chances of implementation. The literature by Amason (1996) and Wooldridge and Floyd (1989) used these concepts of decision commitment and consensus interchangeably. Amason (1996) contended that to reach consensus a number of prerequisites are required, namely, active cooperation of a team and a shared understanding of ends and means. Wooldridge and Floyd (1989) added to this analysis and claimed that it can be the decision process or the decision outcome. Priem (1990) proposed that the attainment of consensus is dependent on diverse thinking and ideas of participants during group decision making. Mintzberg *et al.* (1976) reasoned that the attainment of consensus is an important precursor to ensure that decisions are implemented. As indicated by the studies of various scholars that the attainment of consensus in the process and outcome of a decision result in high-quality consequential decisions. Another important insight made by Eisenhardt (1992) was that groups, rather than individuals, generated better ideas and assumptions and attained better recommendations in decision making. Although superior ideas are generated through group process the disadvantage is that both satisfaction and overall decision acceptance is compromised. Amason (1996) supported this analysis too and reported that the achievement of high-quality decisions is dependent on critical and investigative interactive processes in which team members generate ideas, identify, extract, and synthesise their perspectives to produce a decision. From a strategic decision effectiveness perspective Dean and Sharfman (1996) stated that the decision outcomes must be aligned to achievement of the firm's strategic objectives.

Interestingly, Carver and Carver (1997) maintained that corporate governance failures are interconnected to flawed processes and not a problem of people. By implication

management should be reviewing and refining the decision-making process. Further this demonstrates just how crucial the decision-making process is for producing quality decisions timeously. Hence, Carver *et al.* (1997) argued that more evaluative research on how understanding decision processes and conflict affect decision outcomes.

Several studies on decision quality was done within the context of the general management level but the proposed study reviewed board decision at board level emerging from configuring board process variables.

2.8 Board decision quality (BDQ)

Literature on board decision quality mainly proposes that BDQ was attained through policy and process. A study by Spetzler, Arnold and Lang (2005) proposed six basic requirements to attain decision quality, namely, meaningful, reliable, clear values and trade-offs, logical correct reasoning, commitment to action, appropriate frame, and creative, doable alternatives. Further they proposed the BDQ Approach, a collaborative process with four elements that generate quality decisions, namely: (1) the directors and line management share an understanding of the requirements of decision quality, (2) the board and the CEO agree on the strategic agenda for the coming year, (3) the CEO and the board clearly and jointly designate the BDQ items, and (4) for the BDQ items the board engages in a structured dialogue with management about the decisions.

Whereas, McDonnell and Moynihan (2011) argued the same that the Board is empowered to make high-quality decisions, time should be invested in the design of decision-making policies and processes. They proposed that to facilitate the decision-making process, the Board should have at its disposal high-quality information, access to expert opinions (where required), and sufficient time to debate and challenge the issue at hand. Further McDonnell and Moynihan (2011) argued that boards should be aware of factors that limit effective board decision quality, such as limited information, dominant personalities or agenda restrictions. They also proposed that factors which may distort judgement in the decision-making process such as conflicts of interest,

emotional reliance and inappropriate reliance on previous experience. *McDonnell et al (2011)* further recommended a number of safeguards for situations where judgement may be distorted, or appear to be distorted, including obtaining expert advice, introducing a devil's advocate or establishing a sub-committee for the area under review. Another useful tool to safeguard against poor judgement and decision-making is to have separate discussions on the concept of the proposal, proposal for discussion and proposal for decision, so as to avoid the Board being used as a simple 'sign-off' mechanism.

For this study five process variables, effort norms, functional knowledge, cognitive conflict, independence and information quality were identified, based largely on existing research by Scarborough, Haynie and Shook, 2010; Spetzler, Arnold and Lang, 2005; Wageman, 1995; Kanfer, 1992; Forbes and Milliken, 1999 and Zahra and Pearce, 1989.

In accordance with the integrative model, Zahra and Pearce (1989) proposed specific links among four board attributes (composition, characteristics, structure and process) and three critical board roles (service, strategy and control). Finally, board process variables refer to the decision-making related activities and styles of boards.

2.9 Process Variables

Maharaj (2007) defined board process as the ways in which the board members engage, lead, develop norms and make decisions. Both Finkelstein and Mooney (2003) and Johnson (1996) agreed that in the recruitment and induction of board members board process is not considered or marginalised.

A selection of definitions was provided by different scholars covering different perspectives of board process and board decision quality. Board process variables explained how boards could perform better and positively impact the performance of the organisation (Daily *et al.*, 2007; Scarborough, Haynie and Shook, 2010; Zona and Zattoni, 2007; Ong and Wan, 2001; and others). Korac-Kakabadse, Kakabadse, and

Kouzes (2001) stated that board process refers to decision-making activities, styles of board, the frequency and the length of board proceedings and board culture on evaluation of director's performance. In earlier studies, Anderson and Anthony (1988) proposed that board process pertains to generation of healthy, rigorous and robust dialogue on corporate issues and problems so that decisions can be reached and supported. Dulewicz, MacMillan and Herbert (1995) defined board process as the organising and running of board in attainment of board objectives.

The study by Forbes and Milliken (1999) assessed three process variables: (1) functional area knowledge, (2) effort norms and (3) cognitive conflict. A study done by Scarborough, Haynie and Shook (2010) proposed that there is a link between the functional area knowledge, board composition as well as effort norms with organisation performance. Scarborough, Haynie and Shook's (2010) study posits that board activism and effort norms improve decision making. The authors made a link between quality decision making and company performance.

Pye and Pettigrew (2005) claimed that it is difficult and challenging to query/probe agency theory but this can be done in identifying an integrative basis from which to do this. Most of the work was clustered under board process but this does not guarantee any consistency of language or conceptualisation. Pye and Pettigrew (2005) further argued that the banner of "board process" should provide a sound buttress to agency theory. Further they argued that board process described a distinctly different approach to research, founded on a different set of assumptions and which make a different contribution to theorizing and theory, reflecting its origin in group process studies, describing how it is that groups of people interact. The structure and criteria of what comprises a process-oriented approach or analysis must be determined.

Pettigrew (1997) stated that process research in organisational settings is to catch reality in flight, to explore the dynamic qualities of human conduct and organisational life and to embed such dynamics over time in the various layers of context in which streams

of activity occur. Methodologies must then allow data to be gathered as close to action and context as possible and to be conducted over time, with a clear appreciation of concepts with which to make sense of what is being studied. Pettigrew further explained the importance of time and of context to understanding 'not only processes and outcomes but also of why and how outcomes are differentially shaped by processes. According to Pettigrew (1997) for work to fall within the board process label the work must share guiding assumptions, namely:

- Embeddedness, studying processes across a number of levels of analysis;
- Temporal interconnectedness, studying processes in past, present and future time;
- A role in explanation for context and action;
- A search for holistic rather than linear explanations of processes; and
- A need to link process analysis to the location and explanation of outcomes

Forbes and Milliken (1999) first introduced research on board process and the impact on board performance. Effort norms are directors' shared beliefs about the level of effort directors should expend on board work (Forbes and Milliken, 1999 and Scarborough, Haynie and Shook, 2010). Similarly (Wageman, 1995; Kanfer, 1992 and Forbes and Milliken, 1999) defined efforts norms as a group-level construct that refers to the group's shared beliefs regarding the level of effort each individual is expected to put toward a task. Conversely Kanfer (1992) contended that as an individual-level construct, effort norms being a product of motivation and refers to the intensity of individuals' task-performance behaviour. Although directors may be well motivated they have limited time and have to carefully apportion and provision time amongst an array of important tasks (Lorsch, 1989; Mace, 1986). Considering the time constraints directors dedicate differential effort is applied to board tasks across boards. The differential effort by directors represents the degree to which directors are able to achieve shareholder interest and the strategic objectives of the organisation. Despite

the constraint of time Mace (1996) argued that the potential contribution of boards is limited by the failure to do research in fully understanding company problems.

2.10 Board activism

Board activism was defined by Scarborough, Haynie and Shook (2010), as the extent of the scope and depth of board's activities and the degree to which a board is involved in the matters of the organisation. The board activities as expounded by Scarborough, *et al.* (2010) to include inter alia: (1) attending board meetings; (2) performance evaluation of the CEO; (3) reviewing board reports, (4) participating in the development and monitoring strategic direction; (5) directing audit activities; (6) ensuring compliance to legal and governance regimes; (7) an assessment of the financial and operating performance; (8) approving capital and operating budgets; and (9) approving organisational strategies like downsizing and mergers and acquisitions (Lorsch and MacIver, 1989; Salmon, 1993; Zahra and Pearce, 1987; Copeland and Towl, 1947; Conger, Finegold, Lawler III, 1998; Blair, 1950 and Baker, 1945). The degree of Board involvement is ignited by acquired knowledge. Scarborough et al (2010), found empirical support for an affirmative relationship between functional area knowledge and board activism.

Zahra and Pearce (1987) too agreed with the definition of board activism proposed by Scarborough, Haynie and Shook (2010). A number of research studies by (Shultz, 2001; Lorsch and MacIver, 1989; Salmon, 1993; Copeland and Towl, 1947; Conger, Finegold, Lawler III, 1998; Blair, 1950; Baker, 1945) referred to the activities as attending board meetings, performance evaluation of the CEO; reviewing board reports, participating in the development and monitoring strategic direction, directing audit activities, ensuring compliance to legal and governance regimes, assessment of performance in respect of the financial and operations aspects, approval of budgets and the approval of organisational strategies like downsizing and mergers and acquisitions.

2.11 Board Independence

Board independence will be reviewed from the perspective of structural dimensions (number of insider-outsider board members), the relationship between insider-outsider and board performance, the relationship to board activism, resource dependency theory and group think.

Atkinson and Atkinson (2010) argued that fraud and alleged frauds such as Enron, WorldCom, Global Crossing, Livent, Hollinger International, Adelphia Communications, and Parmalat have attracted immense attention and a more plausible explanation for these failures are executive greed, lack of board independence and board inattentiveness. Atkinson *et al.* (2010) proposed that regulators improve independence of the boards to improve board decision process. A noteworthy contribution by Atkinson *et al.* (2010) was that prescriptions that focus on inputs to, rather than outputs from, the governance process are demonstrably ineffective because they fundamentally ignore that governance is conducted as a social process of group interchange and influence.

Ong and Wan (2001), Atkinson and Atkinson (2010) and Maharaj (2007) agreed that most responses to governance failures have concentrated on specifying better structural inputs such as the composition and structural characteristics of boards of directors (the number, type, skills, number of meetings, and director independence). Maharaj (2007) argued that the extant literature on corporate governance focus on the implementation of rules to regulate behaviour. In addition, they have promoted increased attention to systems of internal control in general and financial reporting in particular. Both scholars agreed that consideration was given to the structure and nature of board processes. In particular board process variables to address independence are behavioural dynamics, techniques and approaches to encourage more effective involvement and evaluating either the process or results of Board activities.

From a behavioural perspective Atkinson and Atkinson (2010) provided an analysis of different types of behaviours of boards below, namely social loafing, herding and

sheeple. Definitions of these concepts by Atkinson and Atkinson (2010) are delineated below. Social pressure is created by repeating the norms of the board so that it forces a particular set of behaviours. Studies of groups have observed that members undergo a process of socialisation by which they learn group norms and expected behaviours communicated by board chairs. When social loafing is left unchecked and becomes standard operational procedure in a board culture, it may lead to a social psychological condition called herding. Herding involves the coalescing of group ideologies and practices around those of one central figure or small cluster of charismatic figures. Social groups beset with herding include members best described as sheeple; those who accept dominant lines of thinking without criticism or reflection, and view more utility in maintaining the status quo than upsetting the proverbial apple cart. The sheeple phenomenon may be one characteristic of boards that observers characterize as inattentive or failing to challenge important management strategies or decisions.

Board vigilance within the context of external and internal environments is necessary to improve governance and decision making. Roy (2008) and Fama and Jensen (1983) recommended that independent directors have greater detachment and objectivity and are more likely to question management decisions and are skilled monitors of performance. Despite these expectations of the positive impact of board independence on board performance and consequentially corporate performance, the research findings have been mixed; little or no correlation has been found, raising questions about the merits of board independence and about the true drivers of board performance (Bhagat and Black, 2002; Dalton, Daily, Ellstrand and Johnson, 1998 and Deutsch, 2005).

Recurring studies focussed on the dimension of board structure mainly the outside-inside directors. In accordance with many corporate governance codes, like King III (2009) outside directors are seen to be more objective, impartial and can consider diverse groups in the decision making process (Ammer, Ramli and Zakaria, 2010; Lorsch, 1995; Jones and Goldberg, 1982; Spencer, 1983). From an agency perspective, independence means members are free from conflicts of interests, autonomous and

unbiased with reference to management (Lorsch, 1995). In addition, a dependency of effective decision control is whether directors are autonomous of executive management (Fama, 1980; Young, Stedham and Beekun, 2000). Consequently, having a proportion of outside members promotes objectivity and independence and to create a culture free of conflicts of interests. The board's independence allows it to fully explore all dimensions of an issue and challenge the status quo, thus promoting board activism. Outside directors brings diverse thinking and access to critical resources. Resource dependence theorists view boards of directors as means to gain some level of control over critical resources in their external environment (Scarborough, Haynie and Shook, 2010; Barringer and Harrison, 2000; Boeker and Goodstein, 1991; Pfeffer, 1972). Additionally, from resource dependence perspective scholars indicated the importance of board independence in activism.

In contrast other theorists maintained that outside directors do not have the necessary time and expertise to do their job well. Another perspective advanced by some scholars is that director independence and objectivity is impaired because the CEO recruits, selects and retains directors (Ong, 2001; Geneen, 1984; Vance, 1983). Further impairment is eminent because the CEO is directly responsible for dispersing information to the board.

Ammer, Ramli and Zakaria (2010) claimed that outside directors are believed to be more effective monitors of management performance. *Ammer et al's* (2010) contention has been supported by other researchers (Fama and Jensen, 1983; Jensen and Meckling, 1976; Daily and Johnson, 1997; Dalton and Rechner, 1989; Hermalin and Weisbach, 1988; Dahya, McConnell and Travlos, 2002). Although there are claims and counter claims the above mentioned studies suggested that the work and functioning of boards are empirically variable.

Board activism is more likely and promoted by having an independent board with no conflict of interest (Scarborough, Haynie and Shook, 2010). Further Scarborough *et al.*

(2010) argued that outside directors are independent and more likely to act in the interest of shareholders and will positively influence the decisions taken by the board. . In addition, other benefits of an independent board are that organisations can leverage greater access to information and other critical resources, which promote the activism of the board. Stated differently, board activism increased as the proportion of outside board members increases, which is the premise behind board independence.

In addition, according to Scarborough *et al (ibid)*, the independence of the board would allow organisations greater access to information and other critical resources, which promote the activism of the board.

Below a list of key studies that reviewed the relationship between outside-insider directors to company performance is shown in Table 2.1 Again, the conclusions are equivocal.

Table 2.1 Relationship between Inside-Outside Directors and Company Performances

Study (Year)	Dimension	Performance Indicators	Sample	Major Findings
1. Vance (1995)	Insiders vs Outsiders	Net income Sales Owners' equity	200 major manufacturing firms (1925-1950)	Insiders' representation was positively associated with financial performance
2. Vance (1995)	Insiders vs duality	Net income Sales Owners' equity	103 major industrial firms (1925-1963)	Insiders were conducive to effective financial performance
3. Schmidt (1975)	Insiders vs duality	Long-term debt Dividends Current ratio	80 chemical companies (1962-1963)	No relationship with financial performance
4. Cochran <i>et al.</i> (1985)	Insiders' representation	Operating income Sales ROE ROA Excess value ratio	406 <i>Fortune 500</i> in 1982	Insiders' ratio was positively associated with financial performance
5. Baysinger and Butler (1985)	Outsiders	ROE	266 major corporations in 1970 and 1980	Companies achieved higher performance did so without having a majority of

				outsiders
6. <i>Caganti et al. (1985)</i>	Outsiders	Firm bankruptcy	21 pairs (successful/failing) of retail firms	No relationship with financial performance
7. Kesner (1987)	Proportion of insiders on board	Profit margin ROE ROA EPS Stock price	250 of 1983 <i>Fortune 500</i> companies in 27 industries	No relationship with financial performance
8. Zahra and Stanton (1988)	Outsiders' ratio	ROE Profit margin on sales EPS DPS	100 <i>Fortune 500</i> 1980-1983	Outsiders' ratio was not associated with financial performance
9. Agrawal and Knoeber (1996)	Outsiders	Performance index	400 large <i>Forbes 800</i> , 1987	Negative relationship between number of outside directors and financial performance
10. Scarborough, Haynie and Shook (2010)	Outsiders	SEC guidelines	135 company secretaries	Directors' independence was not found to have a link with board activism

Table 2.1 Relationship between Inside-Outside Directors and Company Performances

As depicted in the table above, the majority of empirical studies proposed that independence is measured by the proportion of outside directors on a board and linked it to performance. However, despite the number of empirical studies in this regard this conceptualisation received diversified results. For instance, there have been studies where a higher proportion of inside directors had a positive effect on performance (e.g., Cochran, Wood and Jones, 1985). Conversely, others have found that a higher proportion of outside directors had a positive effect on performance (e.g., Rechner and Dalton, 1991). Some studies have even found no significance for the relationship of independence to performance (e.g., Kesner, 1987; Zahra and Stanton, 1988). Still, Pfeffer (1972) found the extent to which a board achieves an ideal ratio of outsiders to insiders had a positive effect on performance.

2.12 Effort norms

Effort norms as defined by (Wageman, 1995; Pound, 1995; Kanfer, 1992) as the intensity of individuals' task-performance behaviour, the shared belief of groups for the performance of a task and an outcome of motivation. Other dimensions of effort norms are the devotion of time, resources and effort that is devoted to the activities (Wageman, 1995; Pound, 1995; Kanfer, 1992). Some of the antecedents of effort norms according to Wageman (1995) related to carefully scrutinising the board packs and agenda prior to meetings; excavating information of relevance to the company, taking notes during meetings or actively participating during meetings. Goodman (1986) linked effort norms with a set of expected behaviour that is accepted and can be used to enforce the performance of the expected behaviour. Further, Lorsch and MacIver (1989) claimed that directors that dedicated sufficient time for board duties and conducted additional research performed better. Effort norms are also seen as a culture and a shared belief in which directors are motivated to become active board members. The culture of involvement and participation by board and the establishment of norms impact on group behaviour (Feldman, 1984; Steiner, 1972; Weldon and Gargano, 1985). Strong effort norms provide a framework that determines what is expected from directors in terms of the level and intensity of participation and the scope of and depth of their board duties.

However, other researchers argued that time were not the only ingredient of effort (Jensen, 1993; Herman, 1981 and Mace, 1986). Jensen (1993) argued that time as a measure of effort is flawed as CEOs set the agendas of meetings. In contrast, Herman (1981) and Mace (1986) also cited empirical evidence that compliance is measured through the attendance at meetings and the registration of votes without consideration for and proper engagement with the issues facing the board. Likewise Vafeas (1999) found an inverse relationship between the annual number of board meetings and firm value.

Similarly, Lorsch (1989) further argued the provision of time to do research and the dedication of time to board activities enables directors to make better decisions, prevent and manage crises and to govern effectively. Moreover, despite adhering to similar amounts of time on board activities boards exhibit different levels of effort. Past qualitative studies revealed other derivatives of effort besides time. Other antecedents are that the board execute board activities with varying degrees of attentiveness, analysis, and participation. Drawing on Wageman's (1995) research on effort norms the antecedents of effort norms are the rigorous assessment and review of information prior to meetings; conducting research on pertinent issues affecting the company; taking notes during meetings and active participation during meetings.

Effort norms is the most studied dimension of board process or decision process. The extant literature that was reviewed showed that the variables or constructs of effort norms is extensively defined; some studies covering the relationship between effort norms, board performance and organisation performance; and very few studies on the relationship between effort norms and board activism.

Research has found a positive relationship between effort norms and board performance (Wan and Ong, 2005; Zona and Zattoni, 2007). The studies by Wan and Ong (2005) and Zona and Zattoni (2007) were implemented using Singapore and Italian firms respectively as their samples.

From the perspective of the relationship between effort norms and board effectiveness studies done by Pearce and Zahra (1991) and Valeas (1999) found a significantly positive relationship between the two variables. Similarly, Forbes and Milliken (1999) postulated that increased effort in the configuration of time spent on board activities can significantly determine the degree to which shareholders' interests are successfully achieved. In contrast, Payne, Benson and Finegold (2008) found that time was not a significant indicant of effort to affect firm performance. This may suggest that time spent on board activities does not transform to board effectiveness and board decision

quality. Payne *et al.* (2008) suggested that future research could extend the body of knowledge doing research on the amount of time spent on duties, but with a focus on how that time was spent. For example, a study could scrutinise the amount of time a board spent on monitoring team behaviours relative to other board activities.

Extending the analysis of the theme of time, Pound (1995) argued that to create an effective board is dependent on director's apportionment of a substantial chunk of professional time to the corporation. Copeland and Towl (1947) contended that directors must be able and willing to devote the necessary effort towards the fulfilment of responsibilities to stockholders, creditors, employees, and other stakeholders. Pound's (1995) study quantified the time and provision of a guideline to boards to commit to a minimum of 25 days in order to fulfil these responsibilities. Additionally, strong effort norms (collective effort) enhance the effort each director exerts as a member (Feldman, 1984; Steiner, 1972; Wageman, 1995). Conclusively, the investment of personal resources to board activities, the ability to access information needed for the application of their functional area knowledge in pursuit of effective board performance (Lorsch and MacIver, 1989).

Scarborough, Haynie and Shook (2010) findings indicated a strong link between effort norms and board activism. This finding reinforced Sonnenfeld's (2002) argument that active and effective boards are a function of treating boards as social system, instead of structural elements. Effective boards of directors do not follow all structural protocols whereas Huse (2007) proposed adherence to decision procedures. Sonnenfeld (2002) thinking on decision process argued that truly high-performing boards of directors are robust, effective social systems with a shared understanding of the level of effort that directors should exert in the execution of their duties. The shared culture of collaboration ignited director's motivation to become active board members.

The measurement tools for effort norms developed by Wageman (1995) and Forbes and Milliken (1999) consider the ratings of board member's support for particular behaviours. The survey consisted of questions on board's member's perception of

expectations and support on a 7- item measure on a likert scale ranging from 1, a low rating, to 5, a high rating. Some of the indicants of effort norms are, namely, thorough consideration of information, doing research on company issues, full participation during meetings, query issues and decisions are reached through thorough discussion and debate at board level. Below Boatright (2012) provides a framework for explaining the level of effort by board members on a continuum from least involved to most involved. Boatright’s framework (2010) closely relates to the variables of effort norms and board activism.

The Role of the Board of Directors

Figure 2.3 below highlights the continuum of involvement by the board members (Boatright, 2012).

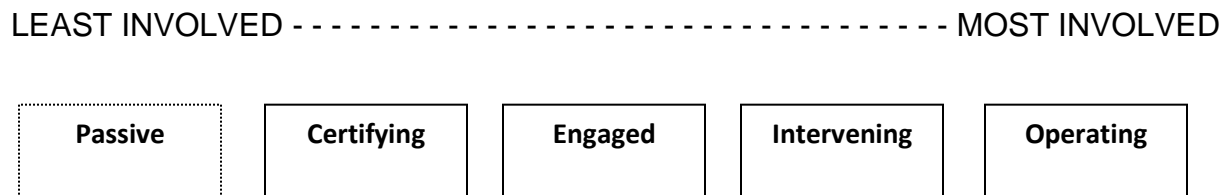


Figure 2.3: Source: Boatright (2012). Ethics and the Conduct of Business. 7th Edition, New Jersey: Pearson.

The passive board is also called a “rubber stamp” board because they will approve whatever is presented to them. On a “rubber stamp” board, the approvals come so quickly it is like having the board stamping each proposal with their approval and the stamp “bouncing up in the air” and quickly stamping the next proposal like a rubber stamp. This type of board involvement was very common in the past since there was a lack of transparency of the actions of the board and the stockholders and stakeholders did not demand accountability of the board.

The certifying board is a step forward pertaining to being involved in the strategic decisions of the organisation. The role of the certifying board is similar to the mandate

of an enforcement officer. The certifying board verifies the legality of the actions of the board but does not move beyond this responsibility. As a result, employees of the organisations would still be allowed to make unethical decisions as long as they were legal.

The engaged board moves one step closer to becoming a fully involved board. An engaged board is proactive and is not just responding to ideas proposed by management but offers their own ideas of the future course of the organisation. An engaged board becomes actively involved with the CEO in the formulation of strategic ideas which also ensured that ethical issues are incorporated in the decision making process.

An intervening board considers themselves to be of equal stature as it pertains to the decision making process within the organisation. An intervening board becomes actively involved in all major decisions pertaining to the organisation.

An operating board is the highest level of involvement by the board of directors. The key distinction between the operating board and the intervening board is the operating board controls the decision making process. As a result, the CEO only has one vote when decisions are made. Therefore, the CEO's decision may not always be implemented by the firm if the majority of the board does not agree with the decision.

2.13 Use of knowledge/skills

The extant literature makes a distinction between knowledge/skills, management cognition, expertise, functional area knowledge and firm specific knowledge. The knowledge/skills construct, was first identified by Hackman and Morris (1975) and (Hackman, 1987: 327) and related to the optimisation of process losses, occurrence of cross-training and collective learning among members. Cohen and Bailey (1997) extended the body of knowledge in recognising that behavioural dimensions of social integration which refers to a group's ability to cooperate. Further these scholars made a

distinction between the use of knowledge and skills and cognitive conflict. Knowledge and skills refers to the process and coordination of members' contributions, whereas cognitive conflict is defined as the content of members' contributions. The successful execution of the control function is dependent on the integration of their knowledge of the firm's internal affairs with their expertise of law and strategy. In addition, boards execute their service task effectively through combining their knowledge of various functional areas and applying that knowledge properly to firm-specific issues. Another dependency of board effectiveness is board process issues. This relates to the ability of board members to elicit and respect each others' expertise, build and combine their contributions in a creative and synergistic ways.

Forbes and Milliken (1999) made a distinction between two dimensions of knowledge, namely: (1) functional area knowledge and skills and (2) firm-specific knowledge and skills. Functional area knowledge and skills comprise the traditional domains of business, including accounting, finance, and marketing, as well as the firm's relationship with its environment, such as law. This definition of knowledge is consistent with the managerial cognitions literature that defines knowledge domains as categories of functional area expertise (Stubbart, 1989). Rindova (1999) recognised that directors' expertise is a more dominant issue than corporate governance research had previously acknowledged. Furthermore director expertise has a significant effect on board activism, a finding that focuses greater attention on director cognitions (Scarborough, Haynie and Shook, 2010). This finding also suggested boards of directors should be viewed as intellectual assets of a corporation. Forbes and Milliken (1999) agreed that for board effectiveness in the execution of their duties a high degree of specialised knowledge and skill is required.

Another stream of thinking propagates that expertise includes knowledge about a certain domain, awareness of its main problems, and general approaches to solving the problems (Sullivan, 1990). Stubbart's (1989) conceptualisation of expertise is that each area has its own sets of computational rules and operating mechanisms for encoding,

locating, using, and changing mental representations determining what individuals deem to be important.

The definition of firm-specific knowledge and skills relates to nuanced information about the firm and an intimate understanding of its operations and internal management issues. Nonaka (1994) argued that to achieve effectiveness and competitive advantage Boards often require this kind of "tacit" knowledge. For example, to make informed decisions about diversification or acquisition opportunities, the board may need to have a detailed understanding of how new and existing businesses would complement one another (Farjoun, 1994; Sirower, 1997).

Ancona and Caldwell (1988) argued that to enrich the decision making processes directors functional knowledge and skills with external networks for information gathering and problem solving is necessary. Nonaka (1994) added that to make good informed decisions it is necessary for directors to have firm-specific knowledge and skills. Boards as an elite, strategic-issue-processing group must have members who possess knowledge and skills in these areas or have access to external networks that can aid in information gathering and problem solving (Ancona and Caldwell, 1988).

The extant literature found that the diversity of the Directors' functional area knowledge increased the overall cognitive capacity of a board. Thus, functional area knowledge is critical to both the scope and the ultimate quality of directors' decision-making. Roy (2008) contended that board activism increases when cognitive capacity matches the cognitive demands of a corporation's business environment. Consequentially, that deduction that can be made is that a board's involvement in the affairs of a corporation increases as cognitive diversity is applied to the cognitive needs of a corporation's competitive environment.

Maharaj (2007) argued that informed decision making is a function of the knowledge base, depth and breadth of knowledge and learning capabilities. In the execution of their duties board members are able to analyse and synthesise information to make

empowered decisions. Further, the organisation benefits immensely from the depth and scope of the board members' knowledge and expertise and can be considered a resource strength that contributes to competitive advantages over rivalries. In addition, compositional dimensions of the board are a function of the demographics, the calibre and knowledge base and learning capabilities of the board members and also how they interact with each other, with management and with other stakeholders.

(Maharaj, 2007) argued that one way to ensure that companies do not nominate board members with a groupthink mentality may be accomplished by formulating a well-developed skill matrices. The skills matrices is aligned to the industry trends and the organisation's strategic needs with the dimensions of knowledge, experience and the behavioural characteristics / patterns of potential and existing board members. This exercise ensured that there is congruence between the corporation's needs and the board members' capabilities. The recruitment matrices for the selection of board members measured the depth and sufficiency of knowledge to make an adequate contribution. The selection matrix that was used to assess the level of functional knowledge and skills was further refined by Dulewicz, MacMillan and Herbert (1995). The selection tool identified 37 skills required of directors and subsequently researchers further divided the required competencies into 6 groups. Similarly earlier research by Leblanc and Gillies (2003) contended that a combination of directors with different behavioural characteristics will lead to a more effective decision-making process by the board.

Brown (2007), Dulewicz and Herbert (2008) and Roy (2008) emphasised paying attention to board processes aimed at developing and improving board expertise. These scholars argued that to ensure strong oversight and relevant input into strategic decisions, companies must ensure that board members have the required skills and knowledge. The cultivation of board expertise is achieved through education programmes, director nomination and board performance evaluations. For the development of board expertise Carlson (1998) added that directors could benefit from

reciprocal learning. Mistrust at the inception stages of new boards are reduced or minimised through the exchanges in knowledge and experience. Consequentially, boards with a wide range of knowledge are able to meet the demands of the organisation and are more involved in the affairs of the organisation. Thus, a wide range of functional area knowledge amongst board members facilitates the board to be more active in its governance roles.

Consistent with the findings of Zona and Zattoni (2007) Scarborough *et al* (2010) found empirical support for the positive association between functional area knowledge and board activism. These scholars recognised that both internal and outside Boards of directors are resource strengths and invaluable asset. Directors contribute diverse experiences, judgments, and functional area knowledge that is potentially applicable to the cognitive needs of the corporation. Prahalad and Bettis (1986) argued that to cope with complexity and uncertainty, directors develop perceptual filters and dominant logics that correspond to their experiences as leaders and directors of their own organisations. In the execution of their fiduciary responsibility board of directors bring multiple and diverse perceptual filters and dominant logics to the governance of an organisation and increases board activism. For the decision process, directors scan larger volumes of environmental and organisational data and analyses the data through multiple perspectives and logics. Directors' varied knowledge domains thereby reduce the risk of competitive blind spots (Zajac and Bazerman, 1991). Directors categorise information they receive and create links to pre-existing knowledge areas and beliefs, and use these links to conceive actions and consequences.

Another perspective by Hillman, Cannella and Harris (2002) are that although there are varied measures of board knowledge, the extant literature recognises that several moderating variables determine the board's ability to translate board knowledge into sound strategic decisions. In addition there should be sufficient diversity among board members to generate a comprehensive list of possible alternatives (Hillman, *et al.*, 2002). Further these scholars argued that active participation, sharing of knowledge

and transparency of opinions is enabled by the group norms and good decision processes. Sonnenfeld (2002) contended that the benefits of specific types of knowledge are context specific. For example, context specific knowledge for mergers or acquisitions for a specific industry improved monitoring, advise and counsel to attain a competitive position (Carpenter and Westphal, 2001). This, in turn, improves firm performance in specific contexts.

Board members human capital is a function of their diverse experience and industry specific experience positively influence board decision outcomes and consequentially results in board decision quality. In the case of boards, the measures of knowledge refers to technical expertise, governance best practice, business strategy, succession, finance, law, technology, society and operations management (Baysinger and Butler, 1985; Conger, Lawler III and Finegold, 2001 and Sonnenfeld, 2002).

The extant literature recognised that there are a number of ways to measure the presence of functional area knowledge or cognition. To assess the knowledge and skills present on the board researchers using a Likert scale created as a measure of the degree to which both types of expertise are present on the board. In the extant literature the scale used to assess the presence of functional area knowledge and skills might include items to gauge the presence of knowledge in domains, such as finance, accounting, marketing, and law. These items could then be summed to obtain a composite score. Alternatively, because some functional areas are liable to vary in importance across industries, researchers may want to ask respondents to rate the importance of various functional areas to their businesses and use an additive measure that weights more important areas more strongly. In assessing firm-specific knowledge and skills, researchers could draw on measures similar to those developed by McGrath, MacMillan, and Venkataraman (1995) to measure "comprehension" within executive teams. Specifically, researchers could ask respondents to assess the degree to which the board understands cause- effect relationships involving the needs of customers, sources of risk to the firm, and impediments to output quality.

2.14 Cognitive Conflict

Forbes and Milliken (1999) defined cognitive conflict as differences in judgment among group members in the execution of board duties. Whereas Jehn (1995) defined cognitive conflict as disagreements about the content of the tasks performed, including differences in viewpoints, ideas and opinions. Jehn (*ibid*) provided other characteristics of cognitive conflict as being primarily concerned with the presence of issue related disagreement among members. Furthermore, cognitive conflict is eminent in groups that, like boards, are interdependent and face complex decision-making tasks. Dutton and Jackson (1987) agreed that the environment and context in which boards operate are complex and ambiguous. Moreover, board members instigate differential analysis, interpretation, problem solving approaches and decision outcomes. However, boards are likely to differ considerably in the degree to which they experience cognitive conflict (Byrne, 1997; Monks and Minow, 1995). Amason (1996: 104) argued that cognitive conflict involve the use of critical and investigative interaction processes that can enhance the board's cognitive and evaluative performance in executive the control role of its duties. Amason (1996) deduced that the degree, intensity and rigour of disagreement and critical investigation of the board exerts pressure on CEOs to explain, justify, possibly modify positions and consider diverse alternate perspectives on important strategic issues. The above scholars agreed that presence of cognitive conflict enriches decision making as the board generates diverse alternatives and critically evaluates the options in pursuit of shareholder interest. In addition, cognitive conflict generates diverse alternative options and possibilities and rigorous evaluation of alternatives-processes that contribute to quality strategic decision making in uncertain environments (Eisenhardt, Kahwajy, and Bourgeois, 1997; Jackson, 1992; Milliken and Vollrath, 1991). Likewise, Wanous and Youtz (1986) found that diverse thinking positively influence the quality of group decisions. Schweiger, Sandberg, and Ragan (1986) found that conflict-inducing techniques contribute to the effectiveness of strategic decision-making groups. Teams benefit from different ideas and diverse perspectives that are generated in the execution of duties (Bourgeois, 1985; Eisenhardt and Schoonhoven, 1990; Jehn, 1995). Cognitive conflict improved decision quality because

the synthesis that emerges from the conflict is generally superior to the individual perspectives\thinking on particular issues (Schweiger and Sandberg, 1989; Schwenk, 1990).

Despite the beneficial effects of cognitive conflict, cognitive conflict also can arouse negative emotions (Nemeth and Staw, 1989) that diminish interpersonal attraction among members. Findings by Jehn (1995) and Schweiger and colleagues (1986) demonstrated that members of groups with high levels of cognitive conflict experience lower levels of satisfaction with the group and express less desire to remain with the group. Mace (1986) has found evidence that these dynamics can apply to boards as well. In considering the effects of cognitive conflict Mace (1986) found that the competing demands and the nature and intensity of cognitive conflict results in board directors reducing their commitment to the board. Similarly research finding by (Roseman, Wiest and Swartz, 1994; Staw, Sandelands and Dutton, 1981) indicated that cognitive functioning is reduced with the anxiety produced by interpersonal animosity, may inhibit performance and distract team members from the task, causing them to work less effectively and produce suboptimal products (Kelly, 1979; Wilson *et al.*, 1986).

Based on the analysis of the research studies it would be appropriate for the chairperson to manage the level of conflict and the impact thereof. Jehn and Shah (1997) agreed that for certain types of tasks moderate levels of cognitive conflict have been beneficial to group performance.

Jehn and Mannix (2001) and Schweiger, Sandberg, and Ragan (1986) distinguished between three types of conflicts that occur in a group which will affect group performance. The three types are conflict is cognitive conflict, affective conflict and process conflict. Cognitive conflict pertains to the dissonance relating to the performance of tasks due to generating diverse perspectives, ideas and opinions. Research done by Engle (2011) attempted to address the deficit in research by assessing affective and cognitive conflict in the decision making process and its impact on decision outcomes.

Studies by (Jehn, Northcraft and Neale, 1999) identified process conflict as the awareness of controversies about aspects of how task will be accomplished. Dimensions of process conflict relate to issues of duty and resource delegation, allocation of responsibility and the level of responsibility. Few empirical studies on process conflict by Jehn (1992) generated lower level of group morale, decreased efficiency and dissatisfaction. Moreover, Jehn (1997) found that process conflicts meddle with task content quality and within this domain sometimes irrelevant and unnecessary discussions emerge. Studies by Jehn, Northcraft and Neale (1999) found that group members that continue to engage in rigorous debate about processes related to the task damages relationships and cripples the ability of members to do their work effectively.

A number of scholars provided measures for cognitive conflict (Jehn, 1995; McNulty and Peck, 2010; Charan, 1998; Jehn, 1995). Jehn's (1995) conceptualisation and measure of cognitive conflict is the four-item scale for task conflict. Using a Likert scale respondents rate the frequency of conflicts about ideas and the extent of differences of opinion on the board.

To measure cognitive conflict nine items was proposed by McNulty and Peck (2010); Charan (1998); Jehn (1995) and Smith, Smith, Olian, Sims, Bannon and Scully (1994). The measures for cognitive conflict included, inclusive participation and decision processes, reaching decision amicably, open and candid discussions, personality clashes amongst directors, win-lose relationships and the creation of an inclusive and positive board culture by the chairperson. The measurements are on a 5-item Likert-scale range from strongly disagree to strongly agree. Higher scores represent higher level of cognitive conflict. Similarly, Smith *et al* (1994) developed measures for affective conflict using a Likert-scale. The measures for cognitive conflict are whether (1) there is personality clashes among directors; (2) members do not get along very well and (3) relationships among members are "win-lose". Higher scores represent higher level of affective conflict.

On process conflict, four items can be taken from studies by Shah and Jehn (1993), and Jehn and Mannix (2001). These measures include whether (1) board members tend to argue on the way things are done; (2) board members often differ about the resource allocation for work and (3) there are frequent arguments about who should do what in this board. Like the first two types of conflicts, process conflict can be measured on a 5-point Likert scale ranging from "Strongly disagree" to "Strongly agree". Greater scores mean higher level of affective conflict.

2.15 Information Quality

Maharaj (2007) argued that information accuracy, clarity, reliability and timeliness are at the heart of board process. Information quality is a function of board member's ability to interrogate the content, process and perspectives of board members to preserve the veracity and integrity of the information and avoid groupthink.

From the perspective of board effectiveness research advocates argued that information feedback from the environment is pivotal to the success of work groups (Katz, 1982). Information referred to data about occurrences, events, and activities that affect the business (Conger and Lawler, 2001). In the context of the board this specifically referred to business environment, competitor activities and information about performance against strategic objectives (Lawler, Finegold, Benson and Conger, 2002). Valuable, accurate and timely information can reduce transaction costs and uncertainty (Hillman, Zardkoohi, and Bierman, 1999), provided access to opportunities (Pfeffer, 1991), increase competitive intelligence (Burt, 1983) and is widely advocated for good governance. The extant literature strongly suggested that increased amounts of information available to executives and directors pertinent to board activities relate to board effectiveness (O'Neal and Thomas, 1996; Pound, 1995).

Below a framework developed Fisher, Lauria, Chengalur-Smith and Wang (2006) delineated the antecedents of information quality.

MIT's Information Quality Dimensions

Accessibility	The extent to which data is available or easily and quickly retrievable.
Appropriate Amount of Data	The extent to which the volume of data is appropriate for the task at hand.
Believability	The extent to which data is regarded as true and credible.
Completeness	The extent to which data is not missing and is of sufficient breadth and depth for the task at hand.
Concise Representation	The extent to which data is compactly represented.
Consistent Representation	The extent to which data is presented in the same format.
Ease of Manipulation	The extent to which data is easy to manipulate and apply to different tasks.
Free of Error	The extent to which data is correct and reliable.
Interpretability	The extent to which data is in appropriate languages, symbols, and units and the definitions are clear.
Objectivity	The extent to which data is unbiased, unprejudiced, and impartial.
Relevancy	The extent to which data is applicable and helpful for the task at hand.
Reputation	The extent to which data is highly regarded in terms of its source or content.
Security	The extent to which access to data is restricted appropriately to maintain its security.
Timeliness	The extent to which information is available in time to perform the task at hand.
Understandability	The extent to which data is easily comprehended.
Value-Added	The extent to which data is beneficial and provides advantages from its use.

Table 2.2: Fisher, Lauria, Chengalur and Wang (2006). Introduction to Information Quality. Massachusetts Institute of Technology Information Quality Programme. Alplaus Books.

From the above boards are dependent on management for information on the very things they are expected to examine, assess and oversee, including management's performance. The board's ability to provide meaningful oversight and useful advice is determined by the quality, timeliness and credibility of the information it has. Another area that is flagged for further analysis is information asymmetry being the difference between the information available to management and what is presented to the board.

Lawler, Finegold, Benson and Conger (2002) contended that a number of questions have to be explored in this regard. Further they argued what are the minimum amounts and kinds of information that directors needed to make prudent business judgments and effective decisions. In addition they contended that this is especially relevant if there are unethical lapses, directors may not be able to rely solely on information from management. Directors may feel compelled by duty and law to seek sources of information that are free from management's interpretations, analyses and biases.

Thomas, Schrage, Bellin and Marcotte (2009) argued from an agency perspective that quality information is essential to board process and board decision quality. Thomas *et al* (2009) recognise that there is a gap in knowledge (information asymmetry) between insiders (management) and shareholders\directors. Further they argue that for the board of directors to fully and effectively protect shareholder interest overcoming information asymmetry is critically important to navigate business challenges and risks. Another dimension proposed by Thomas *et al* (2009) is that the nature, quality and robustness of engagement between management and board, is affected by how much they know about each other's interests, objectives, fears and aspirations. The gaps in knowledge (blind spots) that exist (information not known about the self and the others) affect the interaction, process and decision outcomes. Thomas *et al* (2009) identified four types of interactions below and a figurative illustration thereof in Figure 2.4 below:

- Open discussion or review is possible when each side reveals what it knows to the other.
- The board fulfils its role as adviser when members share insights and experiences with management.
- Disputes are possible between management and the board when the line between management's knowledge (of operations, for example) and that of the board is challenged by the board's quest for further discussion or review.
- The danger zone is the space where neither management nor the board has knowledge about a situation (for example, competitor behaviour or legal/ethical terrain).

Figure 2.4: Types of interactions

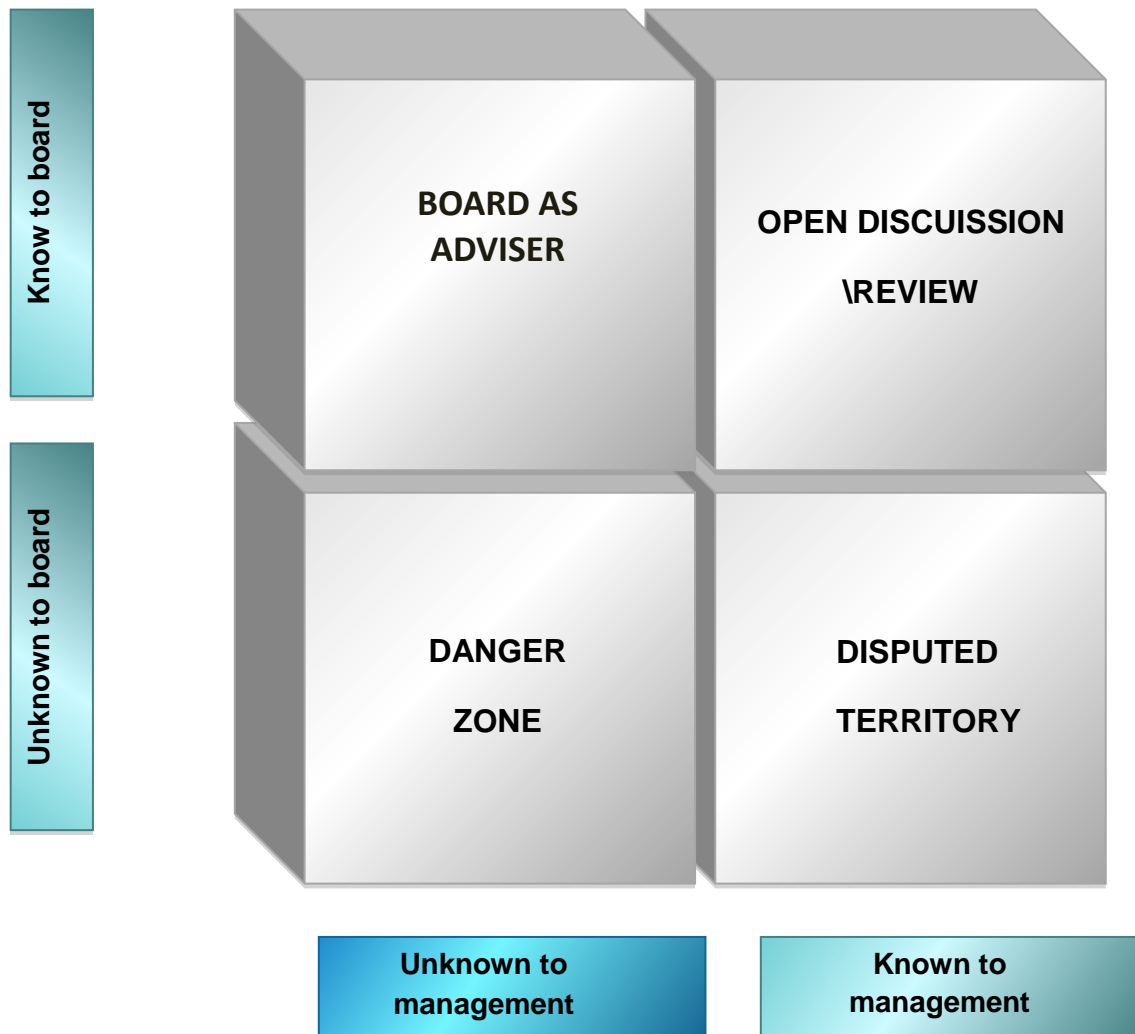


Figure 2.4: Source - Types of interactions Thomas, Schrage, Bellin and Marcotte (2009)

The rosters of today's corporate boards reflect pressures from legislators, regulators, investors and listed exchanges to enshrine independence as a major principle of effective governance. Tomorrow's corporate boards, by contrast, will be expected not only to be independent in terms of their composition but also to act independently. Information asymmetry between management and the board is one of the major stumbling blocks along the path to this future. As long as directors rely on management for information and analyses, they can neither make decisions independently nor

effectively monitor company performance. For this reason, the definition of “independence” for boards will increasingly embrace their own information and analyses.

Morrison (1972) found that a study of some British and American companies continue to prosper and make profits during times of economic pressure and the primary reason is that the boards of directors have operated effectively. Morrison further argued the effectiveness of the board is a function of the quality of information provided. The outside director makes a contribution of unique value-but only if provided with adequate information. The outsider director is far more dependent than the executive director on the information provided by the company. Further arguments were advanced by Morrison that it remains a key challenge to provide adequate information to outside board members and the board as a whole to discharge their responsibilities properly. Morrison further outlined the kinds of information which all board members need to make effective decisions, namely, a sound understanding of the present and prospective economic and competitive environment. Furthermore, an understanding of the problems the company is likely to confront, the adequacy and validity of the company's objectives; ensure that long-term allocation of resources is sound; and to evaluate the company's key executives. Despite the recognition that boards need quality information timeously, Morrison argued that the information provided to board members is too often archaic, excessively figure-oriented, and wholly inadequate to allow them to discharge their role and responsibilities. He further suggested critical questions and information that should be provided to the board to effective decisions (Table 2.3).

Table 2.3 Focus areas of the board

<i>Focus areas of the board</i>	
Has the market for the industry's major products reached a plateau? If so, what changes in management tasks and priorities are likely to result?	
Is the company maintaining its leadership in innovation and new product development?	
How strong is the company's competitive position?	

Is the company exploiting its full opportunities for its products worldwide?	
What are the reasons for the current trend in our profitability, and to what extent is it a function of management action or of general industry and economic forces?	
Will the forecasted capital expenditures build on the strengths of the business or merely reinforce its weaknesses?	
Are new funds going into high-profit businesses, or into businesses that are becoming mature?	
How sound is the company's geographic allocation of resources in view of variations of growth and risk between territories?	
Are the investments made by management paying off as originally projected?	

Table 2.3: Source - Focus areas of the board (Morrison, 1972)

Morrison (1972) further proposed that the board formulates an annual board agenda to provide structure and focus to the meetings. He further argued that information will be provided to the board in accordance to the agenda item for a particular month.

Table 2.4 Annualised board agenda

<i>Month</i>	<i>Proposed annual board agenda</i>
January	Examination of the future use of resources in the light of company objectives and capital requests
February	Review of results achieved during previous year and reasons for variances from plan, both operating and capital expenditure, including comparisons with competitors
March	Annual review of management development, compensation programs, and succession plans
April	Annual reappraisal of company objectives and strategies, including consideration of specific areas for diversification warranting possible investigation
May	Review of major environmental, political, and technological trends, and their implications
June	Review of estimated results for current fiscal year and implications of these results for management priorities
July	Presentation and discussion on specific studies arising out of long-term strategy or environmental trends
August	Open agenda
September & October	Review of significant economic trends and their implications for the company
November & December	Assessment of the outlook for, and the strengths and weaknesses of, each of the company's major businesses (presented by the executive in charge of each business)

Table 2.4 Source: Morrison (1972) Danger: Directors in the Dark

Nicholson and Kiel (2004) argued that effective meetings depend on planning, orderly conduct and active participation by all board members. Nicholson *et al.* (2004) provided

further guidelines for board meetings. The planning process for board meetings relate to the meeting agenda and the board packs. A well-designed agenda facilitates the flow of information and shapes subsequent discussion by the board, while the board packs are the key source of information for board members. Nicholson *et al.* (2004) in comparing and contrasting best practice of board agendas revealed that the common practice is that the formats of individual board submissions tend to be fairly similar in well-governed organisations. The common practice and format for board packs states its purpose, provides background information on an agenda item, presents major issues for consideration and makes recommendations. The review by Nicholson *et al.* (2004) concluded that a full set of board packs prepared for directors should include an agenda, the minutes of the previous meeting, major correspondence, the CEO's (or equivalent's) report, including a report on risk/compliance (unless covered elsewhere), financial reports and documentation supporting submissions that require decisions.

Nicholson and Kiel (2004) in a systematic review of its corporate governance processes, proposed that the board considers its workflow during the year. In general, scholars proposed that efficiency and effectiveness of board process is achieved by developing a structured annual calendar of major board events. The annual agenda schedules specific items to be discussed at the appropriate times and the provision of sufficient time for preparatory work leading up to a major meeting (Morisson, 1972; Nicholson and Kiel, 2004). These scholars proposed that another way of improving the efficiency of board process is through the creation of committees. Nicholson *et al.* (2004) further proposed that the improvement of board process is achieved through the creation of board committees. Board committees adhere to specific decision processes and are required to analyse, review and summarise information and report back to the full board for decision, or can be delegated specific decision-making powers.

2.16 Cohesiveness

Summers, Coffelt and Horton (1988) defined cohesiveness as the extent to which directors are attracted to each other and motivated to stay with the board. As a result of

the nature of board participation of attendance of meetings being periodically creates a part-time status and partial inclusion among directors (Weick, 1979). Furthermore, Park (1995) argued that the nature of board involvement is casual and that this involvement and partial inclusion of directors' cause ineffective board performance. Drawing on the contributions of the above scholars, cohesiveness encompasses the effective relationship of directors and represents their ability to effectively work together.

Forbes and Milliken (1999) addressed the potential for board cohesiveness to exert an immediate influence on board task performance. The effective functioning of the Boards is determined by the degree of interpersonal attraction among members to execute complex decisions (Williams and O'Reilly, 1998). Williams *et al.* (1998) further argued that the relationship between board cohesiveness and board task performance is likely to be curvilinear. In addition these scholars debated that the interpersonal attraction to engage in robust discussion is a requirement of performing board tasks (service and control). Extensive communication and deliberation is needed in order to engage in discussion to reach good decisions. Further, board members must trust each others' judgment and expertise, and where there are low levels of interpersonal attraction it will become difficult to sustain the trust. However, very high levels of cohesiveness are likely to prove detrimental to the quality of the board's decision making.

O'Reilly, Caldwell and Barnett (1989) argued that the impact of cohesiveness on strategic decisions has two aspects, namely, generation and implementation. The generation of diverse ideas is negatively associated with consensus and social integration in groups. Such groups value teamwork, cooperation and are more cohesive and motivated to maintain cordial relations. Consequentially as cohesiveness cultivates, this leads to higher pressure for conformity, limiting the quality of both alternative generation of ideas and alternatives and the evaluation of decisions.

Within cohesiveness groups, there exists high level of cooperation, frequent communication and group identification, all of which will enhance the implementation of

decisions (Guth and MacMillan, 1986). Furthermore Isbella and Waddock (1994) reasoned that consensus created feelings of satisfaction that give rise to greater decision acceptance and commitment. Furthermore, cohesiveness enhances decision in promoting earlier and more extensive discussion of alternative scenarios (Hogg, 1996).

Cohesiveness has negative implications. In this regard Mullen, Anthony, Salas and Driskell (1994) contended that highly cohesive boards may be distracted by the proliferation of personal exchanges. In addition, cohesiveness is the most prominent and frequently noted antecedent of groupthink (Mullen, Anthony, Salas and Driskell, 1994). Group think is a dysfunctional mode of group decision making characterised by relentless unanimity and a reduction in independent critical thinking (Janis, 1983). Arguably some level of cohesiveness is needed for effective decision making but not crippling the process and functioning of the board. Janis (1983) argued for a moderate level of cohesiveness for optimal functioning in decision making tasks. In summation, the deduction is that group think is an antecedent of cohesiveness and is needed for effective decision process and board performance. Below scholars put forth arguments on the effects of cohesiveness as it leads to group think and the conditions thereof. Although, as we have noted, cohesiveness is a key determinant of groupthink, it is not sufficient to produce groupthink (Janis, 1983; Mullen *et al.*, 1994). In order to lead to groupthink, cohesiveness must also be accompanied by an absence of cognitive conflict among members. According to Janis (1983), groupthink occurred when members of highly cohesive groups engage in self-censorship and act as "mindguards," pressuring deviant thinkers to conform to majority opinions. Janis (1983) reasoned that high levels of both interpersonal attraction and task-oriented disagreement are probable in a cohesive environment.

Goodstein, Gautam and Boeker (1994) argued that increased size of the board can significantly reduce cohesiveness among board members. Large boards may encounter more hindrances for a consensus on decisions. Shaw (1981) argued that in large

groups, directors might experience lower levels of motivation and satisfaction with the lack or restriction of effective participation. Gladstein (1984) added that larger teams are characterised by large number of potential interactions among members and hence maybe more difficult to coordinate.

Shanley and Langfred (1998) provided indicators of group cohesiveness. Examples of measures of cohesiveness that identify the extent to which (1) the board obtains feedback from the directors for decision-making; (2) the board gets help from the directors for decision-making and (3) cooperativeness of directors is present. These measurements are rated on a 5-point Likert scale from very low to very high and greater scores represent higher level of cohesiveness.

2.17 Improving board process ad board effectiveness

Nicholson and Kiel (2004) study recognised that governance in action is experienced through the board meetings. Nicholson *et al.* (2004) further provided some of the criteria that characterise good governance through effective board meetings. These scholars argued that the board meeting is the lynchpin of a corporation's governance processes. In addition, successful meetings is characterised by effective communication and collective action. The success of a meeting is a function of the personalities, needs and objectives of the people in attendance of the meeting. Similarly, the degree of complexity of the issues under consideration, the legal and time restraints that govern board process influence the outcome of a decision.

In the study by Finkelstein and Mooney (2003) there was support that board independence maybe insufficient\inadequate in explaining board effectiveness and quality. Finkelstein *et al.* (2003) identified five factors through an analysis of director's interaction and behaviour as they achieve their duties. The determinants of board effectiveness are five interrelated process goals: (1) Engage in constructive conflict; (2) Avoid destructive conflict; (3) Work together as a team; (4) Know the appropriate level of strategic involvement; (5) Address decisions comprehensively.

McIntyre, Murphy and Mitchell (2007) asserted that boards are teams and some of the factors that lead to board effectiveness are the very same factors that lead to team effectiveness in general. They further extracted lessons from Organisational Behaviour literature on team effectiveness for insights into board effectiveness.

McIntyre *et al.* (2007) and Finkelstein *et al.* (2009) provide some guiding principles to improve governance and board effectiveness. Reference is made to the principles, namely, engaging in constructive conflict, avoidance of destructive conflict, work together as a team, and an appropriate level of strategic involvement and addressing decisions comprehensively below.

Engage in Constructive Conflict (Especially with the CEO)

Constructive conflict occurs when directors hold and debate diverse views among themselves and with the CEO. From the perspective that the whole is greater than the parts, constructive conflict help the board fully understand issues surrounding the decision context and synthesise multiple points of view into a decision that is often superior to any individual perspective. In other words, constructive conflict improves decision-making in a board and is an important determinant of effectiveness.

Avoid destructive conflict

Constructive engagement had multiple levels of impact such as feeling threatened, the evoking of personal and emotional issues cause destructive conflict, dissenting views of directors and personal tensions that affect decisions and functioning of the board.

Work Together as a Team

In the research done by Finkelstein *et al.* (2009) 84% of the board members claimed that team work is essential in making complex and ambiguous strategic decisions. Unfortunately, boards often do not act like teams. Developing strong team norms is difficult because boards spend little time together (4-6 meetings per annum) and, hence, has few opportunities to coalesce as a group. Board teamwork is affected by having a

small number of dominant directors take over deliberations. The fear is to avoid the development of fiefdoms.

Know the Appropriate Level of Strategic Involvement

The strategic issues with which the board is involved will vary, often in ways that affect not only how boards work as a group but to how boards perform. The role of directors extend beyond monitoring the CEO to knowing more on the company but to be involved in micro-management. The directors interviewed stated that board can encroach on the role of management and become prescriptive about some decisions.

Address Decisions Comprehensively

Boards often tackle problems in a less than comprehensive manner-they often address decisions with little depth, avoid seeking help from experts, and limit their exploration of decision alternatives.

Finkelstein and Mooney (2003) proposed a number of recommendations to improve board effectiveness, namely: (1) opting for directors with strategically relevant experience; (2) Directors to possess knowledge\skills and functional area knowledge (3) Directors to possess strategically relevant experience which is likely to improve decision comprehensiveness by adding richness to discussions; (4) Evaluation of the communication style of potential directors; (5) the ability to question, be assertive and outspoken but with consideration of the views of others; (6) potential directors must have the time to serve; (7) assessment of committee structure to ensure that it does not result in unnecessary divisions among directors.

McDonnell and Moynihan (2011) conducted a study on board effectiveness and argued that a key focus on good governance is the presence of an effective board that has keen oversight. They too recommend a number of strategies to improve board effectiveness, namely: (1) the role of the company secretary; (2) board effectiveness can be improved by assigning responsibility to the company secretary; (3) Ensure that high quality information is available both to the Board as a whole and to its committees; (4) In addition, the Chairman and the Secretary should periodically review whether the

governance processes within the organisation - such as the Board and committees - are fit for purpose. In addition, to facilitate the decision-making process, the Board should have at its disposal high-quality information, access to expert opinions (where required), and sufficient time to debate and challenge the issue at hand. In terms of the decision-making process, Boards should be aware of factors which can limit effective decision making, such as limited information, dominant personalities or agenda restrictions. The potential risks associated with the decision being made should also be considered. Boards should also be aware of the factors which may distort judgement in the decision-making process such as conflicts of interest, emotional reliance or inappropriate reliance on previous experience.

In addition, McDonnell and Moynihan (2011) proposed that there are a number of safeguards for situations where judgement may be distorted, or appear to be distorted, including obtaining expert advice, introducing a devil's advocate or establishing a sub-committee for the area under review. A useful tool to safeguard against poor judgement and decision-making is to have separate discussions on the concept of the proposal, proposal for discussion and proposal for decision, so as to avoid the Board being used as a simple 'sign-off' mechanism. In summation, appropriate composition, appointing directors with the right skill set, appropriate experience, knowledge, and independence is vital to the effectiveness of the Board. McDonnell *et al.* (2011) further argued that processes need to be in place to avoid the risk of group think. These scholars further argued that diversity in terms of personal attributes, psychological type, background and gender must be achieved in the composition.

The Board evaluation process is vital in order to ensure that a Board is effectively carrying out its duties and can provide useful feedback to help monitor and improve performance. To be effective, this valuation process must be an objective and rigorous review of the Board, sub-committees and Board members. McDonnell *et al.* (*ibid*) proposed that both the effectiveness of the Board is dependent on the effectiveness of the contributions made by the individual members.

These scholars further recommended that the board should retain responsibility for making the decisions for areas of remuneration, audit and risk. Concepts and proposals can be developed at committee level but decisions are made at the board level. In addition McDonnell *et al. (ibid)* further argued that the Chairman of the Board should ensure that there is sufficient time allowed at Board level for the discussion of such matters. Further sufficient time should be provisioned on the board agenda for the Board to consider the concept papers and proposals made to the Board by sub-committees. The minutes of sub-committee meetings should be circulated to all Board members to ensure a transparent process of the issues discussed.

Ethics and decisions

A critical ingredient of good corporate governance is the making of good decisions. The board, management and staff are required to embrace ethical behaviour and mainstream ethical thinking in all actions and decisions. Boatright (2012) proposed that ethical thinking and behaviour must be inculcated and embedded in the culture of the organisation. Ethical behaviour should be designed in the strategic management processes and operationalised through the development of policies, processes, procedures and practices.

Below Landman (2012) proposed that on a continuum an organisation’s ethical practices or orientation can be classified as either adjunct on the on end (survival category) or full integrated into how business is done (ethical society).

Survival	Reactive ethics	Compliance	Integrity	Ethical society
Bread first, morals later	Mere awareness of ethical “rules”	“Cold adherence” to norms and checklists	Internalised personal ethical behaviour and benevolence	Ethics entrenched in the “way we all live and work”
Unethical	Ethical standards,	Rules and	Values, virtues	Unethical

practices endorsed	but no enforcement	external enforcement	and internal commitment	practices regarded as “stupid”
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Figure 2.5: Adapted from: Landman, W. (2012). Governing and managing ethics in the university.

The decisions made by the board focus primarily on overall strategic issues that impact upon the firm as a whole. As a result, issues related to ethical materials should not only be considered by the board but positive ethical values should be incorporated in all the strategic decisions of the board.

Ethics and decision making

Decision-making is improved through good governance practice. The mainstreaming of ethical behaviour in decisions would improve corporate governance. Ethics can be mainstreamed in decision making through consideration of the end results (consequentialism), the generation of the greatest pleasure (utilitarianism) and that ethics is a continuous process (total responsibility management).

Boatright (2010) made a distinction on some of the ethical theories. Consequentialism theory stated that actions are goal-directed and are justified by virtue of the end achieved. The greatest happiness of all is the right, proper and universally desirable end of human action. Whilst Utilitarianism contended that something is morally good to the extent that it produces a greater balance of pleasure over pain for the largest number of people involved – the greatest good of the greatest number. Bentham (1832) argued that an action is right from an ethical point of view if and only if the sum total of utilities (net benefits) produced by that act is greater than the sum total of utilities produced by any other act that the agent could have performed in its place – that one action whose net benefits are greatest by comparison to the net benefits of all other possible alternatives.

Total Responsibility Management

Boatright (2010) proposed that Total Responsibility Management (TRM) is a useful tool to use to understand how ethics management is a continuous process. TRM serves to continually improve the organisation's performance from an ethical perspective. Ethics management requires continuous investment of time and resources by the organisation so that the organisation's ethical vision can evolve with the changing perceptions of the stakeholders

Ethics can be embedded in the culture and in how the organisation operates. Below Boatright (*ibid*) proposed a number of strategies to improve overall governance and consequentially board decision quality.

Ethics and Strategic Planning

Strategic planning is the process in which future courses of action are developed to achieve the organisation's short- and long-term goals. Governance can be improved through mainstreaming ethics in the policies, procedures, processes and practices through the strategic management processes. Part of the strategic planning process means that trust is developed with all the stakeholders of the company.

In order to understand the interconnectedness between ethics and strategic planning, a learning tool that could be used is the Ethical SWOT analysis. The Ethical SWOT analysis allows the decision maker to visualise the pros and cons of a decision that could have ethical implications.

In accordance with an ethical SWOT analysis ethical strengths and weaknesses are identified. Strengths are the internal strong characteristics within the organisation that can be used to help implement the ethical decision. Some examples of strengths could be strong corporate reputation, positive image; corporate ethical philosophy; ethical vision of top managers; the results of previous ethical decisions; a formal code of ethics; having an effective ethics training program; having an ethics officer; having a strong

relationship with stakeholders; using a triple line evaluation of performance and having a strong financial performance which allows continued ethics based investments.

Whereas ethical weaknesses are internal policies, procedures, systems and practices that needs to be resolved. Some examples of weaknesses are negative corporate reputation and image; no ethical vision for top level managers; zero or minimal ethics based training for the firm's employees; ignoring the needs and expectations of at least some of the stakeholders; focusing solely on financial goals; no formal code of ethics; no formal ethics training program; no ethics officer and no ethics evaluation process.

Opportunities are future courses of action which the company can take to enhance their ethical standing. Some examples of opportunities include benchmark ethical performance against the industry and an ethical trend setter; give employees incentives to suggest improvements in their current ethics programs; give employees incentives to identify ethical violations to the responsible party with the firm; use state of the art technology to help facilitate the monitoring and ethical control procedures of the employees; establish liaisons with government agencies which monitor the firm's industry; establish membership in voluntary industry based organisations that support strong ethical standards; review how both domestic and international competitors address the same ethical issues.

Threats are external factors that can impact the ethical standards of an organisation. Some examples of threats are: change in government regulations; change in competitor's focus; addition of new competitors; downturn in the economy of the countries in which the organisation competes in; changes in technology which the firm has failed to adopt; changes in customer's perceptions of the image of the organisation; change in other stakeholder's perceptions of the image of the organisation and change in the demands and expectations of the stakeholders.

To improve governance practices through ethics (Robertson and Crittenden, 2003) recommend a number of strategies. Some of the strategies are discussed below.

Establishing an ethics training programme

Organisations can use ethics training programmes as part of a control system. An ethics training programme is a useful tool for an organisation to ensure that the employees behave properly and appropriate in the workplace setting.

Establishing a Global Ethics Training Programme

As a company broadens its strategic position globally it must also broaden its ethics training programme. The organisation must be aware that different cultures warrant different approaches on how to address ethical issues. Not only must the firm move beyond rule formalism and provide universal human rights guidelines, the firm must embrace the differences in the different country cultures in the ethics training program.

Corporate Ethics Officers

Corporate Ethics Officers play a critical role as the link between the ethical vision of the organisation and the acceptance of that vision by the organisation's employees. The corporate ethics officer roles include company security, counsellor and compliance officer. In the role of company security, counsellor and compliance officer the corporate ethics officer has to be both "good cop" and "bad cop" depending on the circumstances.

Ethical Auditing

Ethical Auditing is a useful tool used by management to assess the current validity of their ethical training programme and the level of compliance of the ethical standards established by the organisation. Through written and oral feedback, an ethical audit can help ascertain whether adjustments need to take place in the training programmes as well as evaluate the level of knowledge the employees has pertaining to the ethical commitment of the organisation.

2.18. Conclusion

The literature review confirms that a lot of research has been undertaken worldwide on board decision making (Engle, 2011; Coleman, 2007; DeSanctis and Gallupe, 1999; Judge and Zeithami, 1992; Hosking, 1991; Schweiger, Sandberg and Ragan, 1986; Nutt,

1984; Schwenk, 1982b, 1984; Cosier, 1978, 1980; Cosier and Aplin, 1980; Schwenk and Cosier, 1980; Cosier, Ruble, and Aplin, 1978; Mitroff, Barabba, and Kilmann, 1977; Mintzberg, 1976; Lourenco and Glidewell, 1974). The literature has looked at various angles: contribution to board activism, board decision process, and board decision quality. There has also been a specific focus on board activism (Baker, 1945; Copeland and Towl, 1947; Blair, 1950; Zahra and Pearce, 1987; Lorsch and MacIver, 1989; Salmon, 1993; Conger, Finegold and Lawler, 1998; Scarborough, Haynie and Shook, 2010). Most of the focus has been on identifying a stable set of explanatory variables which explain the major reasons for board performance. A number of variables are identified that could have an impact on board decision quality.

In the African context most focus has been on board structure as an explanation for improved board performance. The level of independence of the board was largely used as a measure for improving the decisions and performance of the board (Ong and Wan, 2001; Atkinson and Atkinson, 2010; Maharaj, 2007; Roy, 2008 and Fama and Jensen, 1983). Focus on government regulations, access to finance and lack of managerial skills as the key determinants of high mortality of micro and small enterprises. There has been limited focus on the board process variables. Only Scarborough, Haynie and Shook, 2010, have looked at board process variables and its relationship to board activism. These scholars argued that board performance is largely attributed to board process.

Process variables were identified, based largely on existing research by (Engel, 2011; Scarborough, Haynie and Shook, 2010; Atkinson and Atkinson, 2010; Maharaj, 2007; Zona and Zattoni, 2007; Spetzler, Arnold & Lang, 2005; Ong and Wan, 2001; Pettigrew, 1997; Wageman, 1995; Kanfer, 1992; Forbes and Milliken, 1999 and Zahra and Pearce, 1998)

From an analysis of the literature review above the deduction that can be drawn is that very limited attention is dedicated to studies on the role of board process variables on

board decision quality (Scarborough, Haynie and Shook, 2010). This research will pursue one strand of the research gap – the role of board process variables to improved board decision quality. It is clear from the literature review that globally, board performance is studied abundantly from the perspective of board structure but not much attention on board variables to improve board decision quality. The study will pursue the role of board process variables in facilitating board decision quality in public entities in South Africa.

This research will follow this line of inquiry. The problem statement, research questions and the hypothesis have been derived directly from this literature review.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction and Overview

The focus area of the study is on the relationship between Board Structure and Board Process Variables causing board decision quality. The study will draw on various perspectives, methods, techniques and models used to interpret and analyse what has been published on corporate governance constructs. Collis and Hussey (2009) provided a definition of literature as all sources of secondary data that are relevant to study. Secondary data on corporate governance refers to research reported in books, articles, conference papers and reports, journals, newspapers, broad cast media; government and commercially produced statistics, industry data; internal documents, records of organizations, E-resources, such as on-line database and the internet.

To formulate the research gap it is important to extract relevant information to create an understanding of the corporate governance practices with regards to increased performance, effectiveness of the board and improved board decision quality

The structuring of the literature review is done in accordance with an eight step process. The steps taken in the literature review were as follows: (1) The definition of the concept of governance from several perspectives. The objective of this section was to illuminate a thorough understanding of what is meant by the word governance and to describe how it will be used in this research. This relates to conceptual validity of the proposed measure;

(2) The literature provided a description of how the concept governance relates to others variables (like board process variables – effort norms, cognitive conflict, functional area knowledge and information quality). In this part, the theories and models of governance relating to the concept will be presented. This information was used as a basis for making comments regarding the concurrent, discriminate and possible predictive validity of the proposed measure; (3) further refinements in Step 3, a

process was undertaken to compile several lists of the elements, if any, of which the concept comprises. Here, the objective was to identify the building blocks of the concept. The goal was to find the elements that needed to be included in the measure. This related to the construct validity of the measure. For Step 4, notes are recorded of the validity and reliability of a measure and the characteristics of a good measure and its items; Step 5 covered a list of the measures on board process used in other studies and to describe the measures of board process variables. The idea in this section was to find a measure that could possibly be used to measure board decision quality in the local context, or model items to be included in a new measure. The process is refined in Step 6, by describing how the measures relate to the elements of the concept, board process variables. In step 6, the measures found were evaluated to determine construct validity by revisiting step 3. In Step 7, a description on how the measured concept related to other variables. With step 7, a search for information regarding the criterion-related validity of the existing measures was made. Here, the intention was to find journal articles that indicate the theoretical explanations that are supported by empirical findings.

Step 8: Suggested the selected measure or pool of items to be considered as a measure of the concept.

3.2 Defining corporate governance

Various authors, organizations and governance practitioners defined corporate governance differently; there is no universally accepted definition. Governance can be defined from two perspectives from an internal perspective (governance practices of the board) and the external perspective, the context of the institution. The latter approach proposed that the governance culture is influenced by the political and economic context. This governance culture permeated into the governance thinking and practise of the institutions. Similarly Otobo (2000) argued that governance featured prominently on Africa's Development Agenda and is prominent in the development discourse. Otobo (2000) further argued that in the past forty-five years most of Africa's problems have been linked to governance issues to the rule or control by the State construed as

political governance. Hence, the poor economic performance of many States in Africa has been blamed on an inappropriate political environment, particularly poor governance. Economic change or transformation is dependent on the willingness of the political elite to steer the economy in some preferred direction. It is a well-known fact that the political environment defined the context in which economic governance and corporate governance are practised. Otopo (2000), stated that the relationship between political governance, economic governance and corporate governance can be likened to concentric circles in which the political governance circle forms the outside, followed inwards by the economic governance circle, with the corporate governance circle at the centre.

From an internal perspective, the definitions below suggested that corporate governance is an evolving phenomenon, is dynamic and contextual in nature. The definition further connoted that corporate governance is embedded and owned by a 'group' of people (board of directors), with a common reference point (policies, practices and processes), who share common beliefs and have transferred these beliefs to new members of board members.

Herein below corporate governance is defined from a technical perspective, a relational perspective and a macro perspective. Cadbury committee (1992) defined corporate governance as a system by which companies are directed and controlled. Likewise OECD (2004) defined governance as a set of relations among a firm's management, its board, shareholders and stakeholders, which is one of the key elements that improve a firm's performance. Differently, Gill, Vijay and Jha (2009) proposed that corporate governance relates to the ability to respond to the fluctuation of capital markets, stimulating the innovative activity and development of enterprises.

From a control perspective, Shleifer and Vishny (1996), state that corporate governance is a dynamic relationship between providers of capital and management of organisation in executing good decisions to derive a return on investment. From a regulatory and

legal perspective, Oman (2001) defined corporate governance as laws, regulations and accepted business practice in both the private and public institutions. Oman (2001) proposed that a market economy governs the relationship between corporate managers and shareholders. Solomon and Solomon (2004) defined corporate governance as the internal and external system of checks and balances, which ensures that companies discharge their accountability in a socially responsible way in business activity. The Economic Commission for Africa's (2007) definition of corporate governance is the relationship between management, board members and other shareholders but also contextual forces outside the corporation that influence corporate governance standards.

Definitions by Naidoo (2009) proposed that corporate governance is about policy, practices, systems and leadership. More specifically Naidoo recommended that corporate governance covers a number of facets, namely: (1) the creation and on-going monitoring of an appropriate and dynamic system of checks and balances to ensure the balanced exercise of power within a company; (2) the implementation of a system to ensure compliance by the company with its legal and regulatory obligations; (3) the implementation of a process whereby risks to the sustainability of the company's business are identified and managed within acceptable parameters; and (4) the development of practices which make and keep the company accountable to the company's identified stakeholders.

Naidoo (2009) provided another definition of corporate governance as essentially the effective leadership that is characterised by ethical values of responsibility, accountability, fairness and transparency that regulates the exercise of power in the achievement of organisation's objectives. Corporate governance regulates the exercise of power (that is, authority, direction and control) within a company in order to ensure that the company's purpose is achieved (namely the creation of sustainable shareholder value). It encompasses:

- The creation and on-going monitoring of an appropriate and dynamic system of checks and balances to ensure the balanced exercise of power within a company;
- The implementation of a system to ensure compliance by the company with its legal and regulatory obligations.
- The implementation of a process whereby risks to the sustainability of the company's business are identified and managed within acceptable parameters, and
- The development of practices which make and keep the company accountable to the company's identified stakeholders.

3.3 Overview of Governance Theories

Research done by Gabrielsson & Huse (2004) revealed that the status and extent of empirical studies in corporate governance. According to this secondary research study majority of the articles had a rigorous theoretical base. Gabrielsson *et al.* (2004) found that in 69 empirical studies (about 54 percent) used agency theory as the main theoretical perspective, either alone or in combination with other theories. Further they claimed that 19 articles (about 15 percent) used resource dependency theory, and social network perspectives were used in 17 articles (about 13 percent). Finally, their analysis of corporate governance studies discovered that the remaining articles employed a broad variety of theoretical perspectives, such as, for example, legalistic perspectives, institutional theory, stewardship theory, stakeholder theory, and gender and diversity theories. In addition, they found that 22 articles (about 18 percent) did not rely on any clearly articulated theory in their studies but used various arguments from previous literature and empirical results.

3.4 International landscape of corporate governance: codes of practice

Corporate governance is provided by different board types and configurations globally. Governance is realised throughout the world by the King Reports in South Africa (King

Report on Corporate Governance in 1994, King II Report in 2002 and King III Report in 2010); Public Sector Working Group Position Paper for Local Government (2010); Organisation for Economic Co-operation and Development (OECD) Principles of Governance in 2004 (Chalker, 2006); OECD Global Corporate Governance Guidelines in 2004 (Mardjono, 2005); China Corporate Governance Report in 2003 (Weng and Deng, 2006); Sarbanes-Oxley Act of 2002 in the United States of America (Allio, 2007); the Combined Code on Corporate Governance in 2003 of the United Kingdom (Chamber, 2005); the report on corporate governance in 1999 in Malaysia (Abdullah, 2006b); Hampel in 1998; Greenbury in 1995 and the Cadbury Report in 1992.

Organisation for Economic Co-operation and Development (OECD) Principles of Governance (2004) revealed that a number of institutions and even countries or a grouping of countries have been trying to develop corporate governance standards to improve the way corporations behave and the way stakeholder interests are protected. Some of the most prominent efforts so far include the following:

- The Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance;
- the 10 principles set out in the United Nations Global Compact Principles;
- The King Report on Corporate Governance for South Africa (2002);
- The New Economic Partnership for Africa's Development (NEPAD) Peer Review Principles;
- The Commonwealth Association for Corporate Governance – CACG Guidelines,
- Principles for Corporate Governance in the Commonwealth States and other standards such as those developed by the Benchmarks Foundation of South Africa.

Table 3.1 depicts the evolution of thinking in corporate governance from its inception and from different perspectives.

3.5 Evolution of thinking of governance

Date and Author	Contribution
Fama, 1980; Jensen and Meckling, 1976; Vance, 1983	The primary monitoring mechanism available to organisational owners is the board of directors
Eisenhardt, 1989	The goal conflict inherent when individuals with differing preferences engage in cooperative effort
Daily and Johnson, 1997; Dalton and Rechner, 1989	Outside directors (individuals who are not current or former employees of an organisation) are seen as providing more independent, shareholder-interested monitoring.
(Ali-brandi, 1985; Carpenter, 1988)	Outside directors advice and counsel to supplement that provided by top management
Hermalin and Weisbach, 1988	Shifted the focus to understand the dynamics of CEO succession processes and the impact on board composition.
Pfeffer, 1972, 1973	Outside directors provide access to needed resources and assistance in managing critical external linkages
Vance, 1978	One of the first scholars to assess board dimensions with a finding that there is there an optimal formula and no two firms have identical boardroom dimensions
Shleifer and Vishney, 1997	Presented a few mechanisms to curb or deal with agency problems and managerial opportunism (called as corporate governance mechanisms).
Dennis and McConnell, 2003	These mechanisms can be internal or external, where internal mechanisms operate through the board of directors (ownership structure).
Roberts, McNulty and Stiles, 2005	Argues that the literature has been dominated by the assumptions of agency theory and that these continue to have a profound influence on governance reform and practice

Date and Author	Contribution
	Also agrees that a better understanding of board independence and the non-executive directors influence on board effectiveness and performance.
Hart, 1995	Proposed that it was essential to reduce the managerial opportunism to the maximum extent possible.
Luo, Chung and Sobczak, 2009	Prominent distinctions have been made between the shareholder model, which characterises the US and UK, and the stakeholder model, which characterises Japan and Germany (Ahmadjian & Robbins, 2005; Fiss & Zajac, 2004) and the family model (Khanna & Rivkin, 2001; Luo & Chung, 2005).
Ameer, Ramli and Zakaria, 2010	A high representation of outside and foreign directors are associated with better performance compared to those firm boards that have a majority of insider executive and affiliated non-executive directors
Donaldson, 1990a and 1990b and Barney, 1990.	An alternative to agency theory is stewardship theory
Erakovic and Goel, 2008	Resource dependence theory, organizations are dependent upon resources and these dependencies influence organisational decisions
Corley, 2005; <i>Daily et al., 2003</i> ; Roberts, McNulty and Stiles, 2005.	There is a growing body of literature on Board processes or dynamics, referred to behavioural theories by some scholars, to better predict why boards function in the manner they do, and how board process can be improved.
Leblanc and Gillies, 2005; Roberts, McNulty and Stiles, 2005.	Board dynamics may be the single most important factor in determining the effectiveness of the board in carrying out its duties of overseeing management in the best interests of the corporation
McIntyre, Murphy and Mitchell, 2007	The true economic role of the board is one of decision control, not only in the sense of preventing negative management, but also in the sense of encouraging positive management. The board's network role is likely to

Date and Author	Contribution
	create economic value for a firm when board members possess superior connections with key providers of resources (e.g. suppliers, potential and current investors, government agencies, financial institutions).
Carney, 2005; Castanias and Helfat, 2001	Companies' governance practices vary across sectors or industries in term of: (1) firmness, reciprocity and sustainability of effective board-management relationships; (2) knowledge, reputation, behaviour and values of individual directors and executives; and (3) broader institutional context in which the company operates

Table 3.1: Evolution of governance thinking

Different perspectives have preoccupied the agenda on governance, namely, monitoring of management, board composition, improving corporate governance, improving the financial performance and the sustainability of organisations. There has been a preoccupation with agency theory and this has permeated the thinking of scholars from 1976 to 2013. In addition, the literature gravitates towards studies on board structure to improve board performance. Empirical work on stewardship emerged in 1991, and then came the resource dependency, the stakeholder theory, resource-based view followed by contemporary thinking on board process with a focus on effort norms and board activism.

There are different views on the use of corporate governance theories to improve board performance. Most of the literature on corporate governance gravitated towards board structure to improve board performance (Baysinger and Butler, 1985; Vance, 1995; Agrawal and Knoeber, 1996). Alternatively, (Zahra and Pearce, 1989; Johnson, Daily and Ellstrand, 1996; and Dalton and Daily, 1999) for example argued that to a large extent, studies on improving board performance must gravitate towards board process variables. These are raging debates, to date.

Governance models postulated that there are many factors that affect the governance of all entities and therefore no one theory fully explains it. A number of theories go some way to look at variables that affect the performance of the board. Below a number of theories on corporate governance are discussed, namely, Agency Theory, Policy Model, Stewardship Theory, Resource-based view, Resource Dependency Theory, Evolutionary Theories, Behavioural Theories, Contingency Theory, Board Process Variables and Stakeholder Theory.

3.6 Governance Theories

Agency Theory

Abdullah and Valentine (2009) defined agency theory as the relationship between the principals, such as shareholders and agents, the company executives and managers.

Corporate governance thinking has been preoccupied by agency theory thinking for decades and this is highlighted by the work of Berle and Means (1932), Jensen and Meckling (1976), Fama and Jensen (1983), Shleifer and Vishny (2003), Perry and Shivdasani (2005).

More than 80 years ago, Berle and Means (1932) classic work instigated the proposition that ownership and control in the modern corporation must be separated. The thinking behind agency theory was that there are two primary actors in every corporate activity, the principal and the agent (Eisenhardt, 1989). From the perspective of Fama (1980) the board is viewed as a market-induced institution, the ultimate internal monitor of the set of contracts called a firm and whose most important role is to scrutinise the highest decision makers within the firm.

Agency theory proposes the separation of ownership and control to ensure organisational performance and sustainability. Much of the subsequent research has been dedicated to identifying the optimal ownership structure and how it influenced a

firm's performance. This issue of separation of "ownership" and "control" has been the preoccupation of many scholars from Adam Smith to Berle and Means (1932) and Jensen and Meckling (1976). From the perspective of these scholars the separation of ownership and control, referred to as the agency problem, is controlled by decision systems that separate the management (initiation and implementation) and control (ratification and monitoring) of important decisions at all levels of the organisation. Jensen and Meckling (1976) was the first to advance Agency theory and was concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is actually doing. The problem identified was that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing when the agent and principal have different attitudes to risk. The problem here is that the principal and agent may prefer different actions because of different risk preferences.

Berle *et al.* (*ibid*) claimed that separation of ownership and control creates many situations in which the interests of managers and owners may not coincide. In aligning the interest of principals and agents Berle *et al.* (*ibid*) proposed stock ownership plans and performance contingent compensation. He further argued that agents can monitor performance of managers to ensure that they use their knowledge and the firm's resources to generate the highest possible return for principals. More specifically, agency theorist suggested that the best option was for owners to design contracts that align manager\owner interests.

A study by Mace (1971) demonstrated that despite agency theory thinking guiding board practice, the board's participation in directing the corporation was minimal. The study further found that the CEO selected the directors and that the poor performance of the CEO was not sanctioned. Further the study revealed that the boards of directors did not ask evaluative questions, did not formulate strategic objectives, policies and strategies and only sanctioned the CEO when in crisis mode.

The study of Jensen and Meckling (1976) was the first to provide a detailed description of agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involved delegating some decision making authority to the agent. Like Berle *et al.* (*ibid*), Jensen and Meckling agreed that if both parties to the relationship are utility maximisers there is good reason to believe that the agent will not always act in the best interests of the principal. Further the study exposed that the principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities, of the agent. Jensen *et al.* (1976) concluded that the thinking of the principal-agent relationship was representative of a nexus of contracts among self-interested and potentially opportunistic parties.

Vance (1978) was one of the first scholars that proposed and studied 15 boardroom attributes or directorate dimensions, and the relationship with company performance. The finding of this study by Vance was that there is no substitute for technical experience and internal managerial expertise. Neither is there an optimal formula. No two firms have identical boardroom dimensions.

Fama and Jensen (1983) too being a proponent of agency theory recognised that an important factor in the survival of organisational forms is control of agency problems. Agency problems arise because contracts are not costlessly written and enforced. Fama and Jensen was more explicit in specifying that the agency costs would include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests, plus the residual loss incurred because the cost of full enforcement of contracts exceeds the benefits.

Agency theorist conclude that the primary monitoring mechanism available to shareholders are the board of directors to ensure that the CEO and top management carry out their duties in the achievement of organisational objectives (Fama, 1980;

Jensen and Meckling, 1976; Vance, 1983). Agency theory is based on the premise that governance structures in the form of the board can be the monitor of the implementation of organisational activities. Shareholder interests are safeguarded by the market for corporate control and the board of directors. From the perspective of agency theory the corporate board is regarded as the internal governance mechanism to protect shareholder interest. In particular, outside directors have no connections with the organisation, are independent and objective and hence provide more superior shareholder-interested monitoring (Daily and Johnson, 1997; Dalton and Rechner, 1989). These scholars further argue outside directors' are not associated with the organisation in any other format and hence have no conflict of interest and therefore their judgement cannot be contaminated in anyway. In addition, outside directors provide other performance-enhancing benefits: complementary advice and counsel to the top management (Ali-brandi, 1985; Carpenter, 1988), as well as access to critical resources and support in managing alliances and critical partnerships (Pfeffer, 1972, 1973).

Baysinger and Butler (1985) argued that the board of directors has the power to hire, fire, and compensate senior management teams, serve to resolve conflicts of interest among decision makers and residual risk bearers. Although scholars (Fama and Jensen, 1983; Jensen and Meckling, 1976) recognised the need to separate ownership and control, these scholars were largely silent on matters concerning the size, composition, and structure of boards; directors' compensation; place, time, and frequency of board meetings; and so forth. As a result of the lack of prescripts and legislation on the above issues caused a lack of uniformity in key board dimensions. Consequently, governance proponents proposed a more activist governmental role in advancing higher standards of board practice.

In 1988, Hermalin and Weisbach shifted the focus to understand the dynamics of CEO succession processes and the impact on board composition. The research provided evidence that when firms perform poorly, they tend to remove insider directors and

replace them with outsider directors. This finding is consistent with the agency theory that poor performance is attributed to poor management (Jensen and Meckling, 1976; Fama and Jensen, 1983) and hence the need for greater monitoring of management. Thus, the shareholders response to poor performance is to force the CEO to appoint more outside directors to monitor management. Similarly, these scholars argued that agency theory can be used to explain CEO-tenure effects on board composition. The explanation is that the new CEO is an unknown quantity with less power and consequently shareholders require more scrutiny by outside directors.

Weisbach (1988) further advanced other research with the correlation between CEO turnover and board performance. Boards of directors are widely believed to play an important role in corporate governance, particularly in monitoring top management. Directors are supposed to supervise the actions of management, provide advice, and veto poor decisions. The board is the shareholders' first line of defence against incompetent management; in extreme cases, it will replace an errant chief executive officer (CEO).

Eisenhardt (1989) criticised agency theory in that it represents a partial view of the world that, although it is valid, it fails to consider the complexity of organisations. Eisenhardt in support for his claim provided the dimensions that represent gaps in agency theory in table 3.2 below.

Key ideas	Principal-agent relationships should reflect efficient organisation of information and risk-bearing costs.
Unit of analysis	Contract between principal and agent
Human assumptions	Self interest Bounded rationality Risk aversion
Organisational assumptions	Partial goal conflict among participants Efficiency as the effectiveness criterion Information asymmetry between principal and agent
Information assumption	Information as a purchasable commodity
Contracting problems	Agency (moral hazard and adverse

	selection)
Problem domain	Relationships in which the principal and agent have partly differing goals and risk preferences (e.g. compensation, regulation, leadership, impression management, whistle blowing, vertical integration, transfer pricing)

Table 3.2: Agency theory overview (Eisenhardt, 1989)

In accordance with agency theory CEO duality is not questioned and if retained, shareholder interest must be protected by aligning the interests of the CEO and shareholders by a suitable incentive scheme for the CEO (Donaldson and Davis, 1991; Kesner and Dalton, 1986).

Hart (1995) also in favour of agency theory proposed that it was essential to reduce the managerial opportunism to the maximum extent possible. In this regard Shleifer and Vishney (1997) presented a few mechanisms, called corporate governance mechanisms to curb or deal with agency problems and managerial opportunism. Research suggested that corporate governance mechanism deal with the ways in which capital providers guarantee firms of getting a return on their venture. Further Vishney suggested that corporate governance support and protects the investors from the agents, to reduce agency costs.

Dennis and McConnell (2003) also argued in their study that, to overcome problems in corporate governance, different mechanisms can be applied. These mechanisms can be internal or external, where internal mechanisms operate through the board of directors and ownership structure (managerial ownership). Some of these mechanisms are: board of directors, ownership concentration and disclosure. However, whether these mechanisms actually serve the purpose of protecting the principles and creating value for them needs to be researched. The value creation can be measured through the performance of the firm.

As Robert, McNulty and Stiles (2005) expounded that there is a well-established and widely researched body of research into corporate governance based on the principals of agency theory yet in comparison, relatively little is known about the effective execution of roles and behaviour of boards and directors. Robert et al. (2005) proposed that an alternative to board structure studies is needed. The body of knowledge can be extended through the study of board process variables from different perspectives instead of creating an alternative view to agency theory.

Roberts, McNulty and Stiles (2005) argued that the literature has been dominated by the assumptions of agency theory and that these continue to have a profound influence on governance reform and practice. Roberts *et al.* further argued that there is increasing criticism of agency theory by management scholars and economist.

McIntyre, Murphy and Mitchell (2007) suggested that the Board's main purpose is to minimise defalcation, malfeasance, self-indulgence, and other negative behaviours. These scholars further argued that the governance responsibility of the board should be delineated and that directors must be held accountable for such. McIntyre *et al.* (2007) further proposed that the significance of the board's role relate to decision control, in minimising negative management practices and encouraging good governance practice. The decision control function is critical to the success of the organisation and hence protocols, procedures and positive practices must be created in the interest of shareholders. Therefore, the Board as a team develops, selects and refines creative ideas for the advancement of the firm.

Many researchers acknowledged that delinquent or negligent behaviour of management is eminent when the management behaviour is not aligned to shareholder interest. Secondly, if the board is weak or compromised then there will be a failure to serve the interest of the shareholders (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983; Demsetz, 1983; Williamson, 1983). The definition expounded by Shleifer and Vishny (1997) is that the agency problem relates to the misappropriation

or waste of financial resources. From an agency perspective they further argued that the separation of ownership from control creates effective management of divergent interest (Demsetz, 1983). Jensen (1993) and others (Fama and Jensen, 1983; Leighton and Thain, 1995; Millstein and MacAvoy, 1998; Williamson, 2002) too contended that the Board provides important decision control functions to alleviate agency problems in pursuit of shareholder value. These scholars argued that additional empirical research is required on the antecedents and measures of board effectiveness. A broad range of studies covered some dimensions of board effectiveness. In this regard some researchers investigated the apparent contributions of CEO duality (Fama and Jensen, 1983; Dey, 1994; Monks, 1995; Daily and Schwenk, 1996), other studies involved board compensation schemes (Leighton and Thain, 1993; Baker et al., 1988), still others looked at board ownership of the firm (Jensen, 1993; Monks, 1995; Becht, Bolton and Roell, 2002), many studies covered the proportion of inside versus outside directors (Fama and Jensen, 1983; Cadbury, 1992; Dey, 1994; Eisenberg, Sundgren and Wells, 1998; Becht, Bolton and Roell, 2002), and still others involved aspects of the board diversity variables of cultural and gender dimensions (Orser, 2000; Brown, Brown and Anastasopoulos, 2002).

According to Choi, Park and Yoo (2007) given the separation of ownership and management of a modern corporation, the board of directors has been created as an internal governance mechanism to represent and protect shareholders from managers who may pursue their own personal interests or not act in the best interests of shareholders. These scholars argued that the presence of independent outsiders is crucial to timely monitor and, if necessary, discipline the management. The general expectation, therefore, is that, the firm performance increased with the independence of the board. They further argued that governance legislation induced firms to improve transparency and the oversight role of the board by installing independent outside directors.

The above studies provided stimulating insights into Board characteristics but the empirical evidence provided inconclusive results. Some studies correlated board

characteristics with firm performance. The conceptualisation of board structural variables to firm performance is inconclusive and lacks an underpinning theoretical foundation. The research above demonstrated that board effectiveness in addition to board structure is also a function of and dependent in part on how well the Board functions as a group (or as a team) to achieve board decision quality. There was no agreement on the variables of Board effectiveness and hence remains an elusive concept. Further there still remains substantial debate about the duties, roles and responsibilities of Boards. Lawler, Finegold, Benson, and Conger (2002) proposed three Board effectiveness variables: external analysis of environment to explore threats and opportunities; CEO guidance, counsel and constructive feedback; and extending alliances, network of contacts and partnerships to gain invaluable knowledge to enhance firm performance. This conceptualisation of board effectiveness goes beyond the traditional boundaries of governance literature where Board roles are characterised by the control in monitoring managers as fiduciaries of stockholders.

Johnson, Daily, Ellstrand (1996) too contributed to a delineation of Board responsibilities to include advising on strategic issues, the facilitation and acquisition of scarce resources critical to the firm's success. The conceptualisation of board effectiveness goes beyond mitigating agency costs. Many authors (Barnhart and Rosenstein, 1998; Daily and Schwenk, 1996 and Lawler, Finegold, Benson and Conger, 2002) too advocated for the board to indulge in a strategic beyond the traditional preoccupation of monitoring of management decisions.

The above scholars argued that board effectiveness is multi-dimensional and hence full consideration is given to the all stakeholders. From this perspective Boards are to fulfil their potential responsibilities to internal and external stakeholders (human capital and communities). A stakeholder approach may warrant a change in Board membership to be more representative of stakeholder levels (Lawler et al., 2002). The transition from an insular board to responsive and inclusive Board is challenging and may take time to implement. There is a burgeoning expectation from stakeholders for boards to be more

inclusive and increased public expectation of ethical considerations, consistent with a stakeholder approach. Lawler *et al* (2002) argued that the mandate of the Board should be aligned with its membership. These scholars argued that the extended definition of board effectiveness is an important ingredient in firm performance. In addition, the extended definition of board effectiveness provided an opportunity to do further empirical research but also because it forces researchers to rethink the roles and responsibilities of Boards. As stated, Boards are arguably responsible to shareholders, members of the organisation and communities. The challenge for an 'effective Board may be to manage competing interests while attempting to add value to an organisation. However, the link between Board characteristics and firm performance is often simply assumed with widely varying research results (Johnson, Daily, Ellstrand, 1996).

From the organisational behaviour literature board effectiveness is determined by composition of the team, the task and roles assigned that are specific to the firm and industry context. Another stream of thinking to consider is growth in board process literature. Numerous scholars have called on behavioural theories to better predict board functioning and how board process can be improved (Corley, 2005; Daily, Dalton and Cannella, 2003; Roberts, McNulty and Stiles, 2005). The research studies of both Leblanc and Gillies (2005) and Roberts *et al.* (2005) gained access to Directors in order to explore the behavioural dimensions of Boards. Leblanc and Gillies (2005) reported on the inner workings of 37 Boards and 194 directors. The authors examined how Boards made decisions and argued that the governance literature largely focused on structure at the expense of developing knowledge about what constitutes Boards effectiveness in various contexts.

Further, Leblanc and Gillies (2005) postulated that board process is significant in determining the effectiveness of the board. Adhering to a particular process framework that board is able to execute duties in monitoring management to achieve the strategic objectives of the organisation. Similarly, in a review of the extant literature for the Higgs Review Roberts *et al.* (2005) concluded that board composition and structure rather

than determine Board effectiveness was emphasised. Further, the authors argued that accountability must extend beyond traditional agency perspectives. They argued that accountability can be improved by the Director's questioning the status quo, challenge, question, probe, fully discuss, and exploring issues (Roberts *et al.*, 2005). Scholarly work also framed the significance of board practice. In this regard Stiles (2001) argued that Board processes and activities are multi-functional and assist with demarcating the strategic parameters in which the firm operates Stiles (*ibid*) proposed that future research should create and test a theoretically sound model of Board effectiveness. The empirical studies to date equate team processes and attributes to board effectiveness and firm performance. . The first step toward a more holistic conceptualisation of Board effectiveness can be found in the work of McIntyre and Murphy (2005), and the purpose of this paper was to empirically test some aspects of their conceptual framework.

The scholars that instigated studies on board effectiveness and the creative contributions that boards can make propose a holistic framing of board effectiveness to extend beyond structure and the monitoring perspective.

The Policy Model

Carver and Carver (1996) argued that Policy Governance is constructed on similar principles to 'management by objectives' approach. The approach is based on ten basic principles (Carver and Carver, 1996). The basic principles are set out below. Firstly, the board governs and represents the interest of all stakeholders. Trust is an absolute foundation of governance and hence the board must establish, maintain, clarify and protect the relationship of trust with shareholders. Second, the board is a cohesive structure and there is full collaboration and collegiality amongst board members. Thirdly, board decisions should predominantly be at a policy level. Policies provide the framework for human behaviour and interactions. Fourthly, policy formulation should be constructed in layers, starting from broad statements and working down in logical succession. Fifthly, the board's focus is strategic to delineate and delegate, rather than

react and endorse. Sixthly, the board has to achieve the strategic objectives\outcomes. Seventh, the board's control mechanism is to prohibit behaviours that are not in sync with the objectives of the organisation. Thus the board maintains prudent control of the organisation but without unduly interfering in the work of staff. Eighth, boards should explicitly design their own products and process. Ninth, the link between the board and the CEO must be empowering and safe. Decisions taken by the CEO should not be unduly interrogated provided his or her decisions are consistent with any reasonable interpretation of the board's policy (Carver, 2002). Tenth, CEO performance must be monitored rigorously, against policy criteria explicitly established by the board.

According to Carver (2001) Policy Governance, policies are developed in four areas:

- **Ends:** The board defines which human needs are to be met, for whom, and at what cost. Written from a long-term perspective, these mission-related policies embody most of the board's part of long-range planning.
- **Executive Limitations:** The board establishes the boundaries of acceptability within which staff are able to execute their responsibilities
- **Board-CEO linkage:** The board clarifies the method in which it delegates authority to staff as well as how it evaluates staff performance in accordance with the ends\outcomes and Executive Limitations policies.
- **Governance process:** The board determines its philosophy, its accountability, and scope of board responsibilities (Carver, 2001).

Hough (2002) provided an extensive review of the criticism levied on the Policy Model by numerous critics. Hough (2002) concluded that of the numerous objections that two of the criticisms deserves any weight of any significance or consideration. The first criticism levied was that is the lack of empirical verification of the model. Hough explained that this observation is valid for many other approaches to governance. Although extensive empirical investigation was done the studies only demonstrated correlation between board performance and organisational performance. The second objection is that without structured empirical studies on the longevity of Policy Governance in adopting organisations, it cannot be known whether the model is, or is

not, sustainable given the realities of non-profit boards. Essentially there has only been anecdotal evidence of organisations maintaining the model for longer periods. The lack of empirical demonstration of sustainability in the long term is true for all so-called 'heroic' approaches to governance.

Resource Dependency

Resource dependency theory concentrated on the role of board directors in providing access to scarce resources critically needed by the firm. Hillman, Canella and Paetzold (2000) contended that resource dependency theory focused on the role that directors play in providing or securing essential resources to an organisation through their linkages to the external environment. Indeed, Johnson, Daily and Ellstrand (1996) concurred that resource dependency theorists provide focus on the appointment of representatives of independent organisations as a means for gaining access to resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure. It has been argued that the provision of resources enhances organisational functioning, firm's performance and its survival (Daily *et al.*, 2003). According to Hillman, Canella and Paetzold (2000) that directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy.

Barney (1991) gave the resource-based view of the firm, according to which, a resource could be considered as a competitive advantage if it is rare, creates value for the firm, inimitable and not easily substitutable.

In accordance to Erakovic and Goel (2008) resource dependence theory, argued that organisations are dependent upon critical resources and these dependencies influence organisational decisions (Pfeffer & Salancik, 1978). Resource dependence theorists have emphasised the role of directors as providers of resources such as advice and

counsel (Carpenter and Westphal, 2001; Pfeffer and Salancik, 1978). Under this perspective, outside members provides access to valuable resources needed by the firm indicating the importance of board independence (Stearns & Mizruchi, 1993).

Resource dependence perspective allows for greater understanding of how resource dependencies establish specific governance arrangements in terms of the formal governance structures and the actions of directors and management. Resource dependence theory is one of the mainstream approaches in analysing board behaviour (Boeker and Goodstein 1991; Boyd 1990; Geletkanycz and Hambrick 1997; Hillman et al. 2000; Pfeffer 1972). This perspective is concerned with the tendency of firms to co-opt the sources of uncertainty or to create collaborative relationships to increase control over their environments. Criticality and scarcity of resources defines the organisation's position among other organisations, particularly with respect to resource providers. According to this perspective, organisational decision makers (board and management) are given an active role in seeking alternative sources of resources and reducing environmental uncertainty (Pfeffer 1972). Moreover, various links and arrangements with different organisations from the environment can be developed (Pfeffer and Salanick 1978). As such, resource dependence theory emphasised the importance of power relations within and outside the organisational boundaries.

Resource dependence requirements are critical in discussing board-management relationships (Daily and Schwenk 1996). A balance between resource scarcity and resource criticality (Boyd 1990; Pfeffer and Salanick 1978) for a focal organisation may determine the board's involvement in the company's affairs and interactions inside and outside the boardroom. Proponents of resource dependence perspective argue that the board provides critical resources for the company, protect the company from the environmental uncertainties and reduce transaction costs in managing external relationships (Huse 2005; Lynall, Golden and Hillman, 2003). Outside directors, in particular, play an important role in providing (1) specific resources otherwise unavailable to management (Erakovik and Goel, 2008) (e.g., financial funds,

information), (2) access to external institutions and influential organisations (e.g., regulatory bodies, consulting firms, and international organisations), (3) legitimacy, and (4) expert knowledge and advice (Hillman, Canella and Paetzold, 2000; Lynall, Golden and Hillman, 2003; Pfeffer and Salanick 1978). Resource scarcity prompted corporate boards to engage in inter-organisational relationships in an attempt to moderate influences of external pressures upon their organisations (Pfeffer and Salanick 1978).

Walters, Kroll and Wright (2008) maintained that an effective board positively impacts on firm outcomes. To derive optimum board effectiveness Walter et al. (*ibid*) argued that substantial levels of CEO ownership, decision control and the alignment of CEO and shareholder interest is needed. By the same token, interest alignment is not achieved if CEO ownership is negligible (e.g. Jensen and Meckling, 1976). Kroll, et al (*ibid*), found that director incentives and the relevant human capital of the board induce decision control. Consequently, a board with both incentives and human capital can successfully manage acquisitions and mitigate actions that reduce shareholder welfare. At moderate levels of CEO ownership, these scholars argued that there is a direct and positive relationship of stock ownership and good financial returns. CEO's industry-related expertise aids management in assessing the intrinsic value of the firm. Directors with sufficient industry related knowledge are able to assess acquisitions and judge the merits, regardless of director incentives. Resource dependence theory emphasises the impact of directors' advice and counsel (Boyd, 1990; Carpenter and Westphal, 2001; Dalton and Daily, 1999; Hillman and Dalziel, 2003; Pfeffer, 1972). In sum, executive ownership incentives reduce management's propensity to undertake non-value-maximising strategies, reducing the need for board monitoring; but without significant managerial incentives, active monitoring by directors becomes essential. Thus, CEO ownership incentives and board monitoring have often been normatively viewed as efficient substitutes.

Stakeholder Theory

Abdullah and Valentine (2009) stakeholder theory can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Theorists suggested that managers in organisations have a network of relationships to serve – this include the suppliers, employees, government, investors, trade associations, communities, business partners, etc.

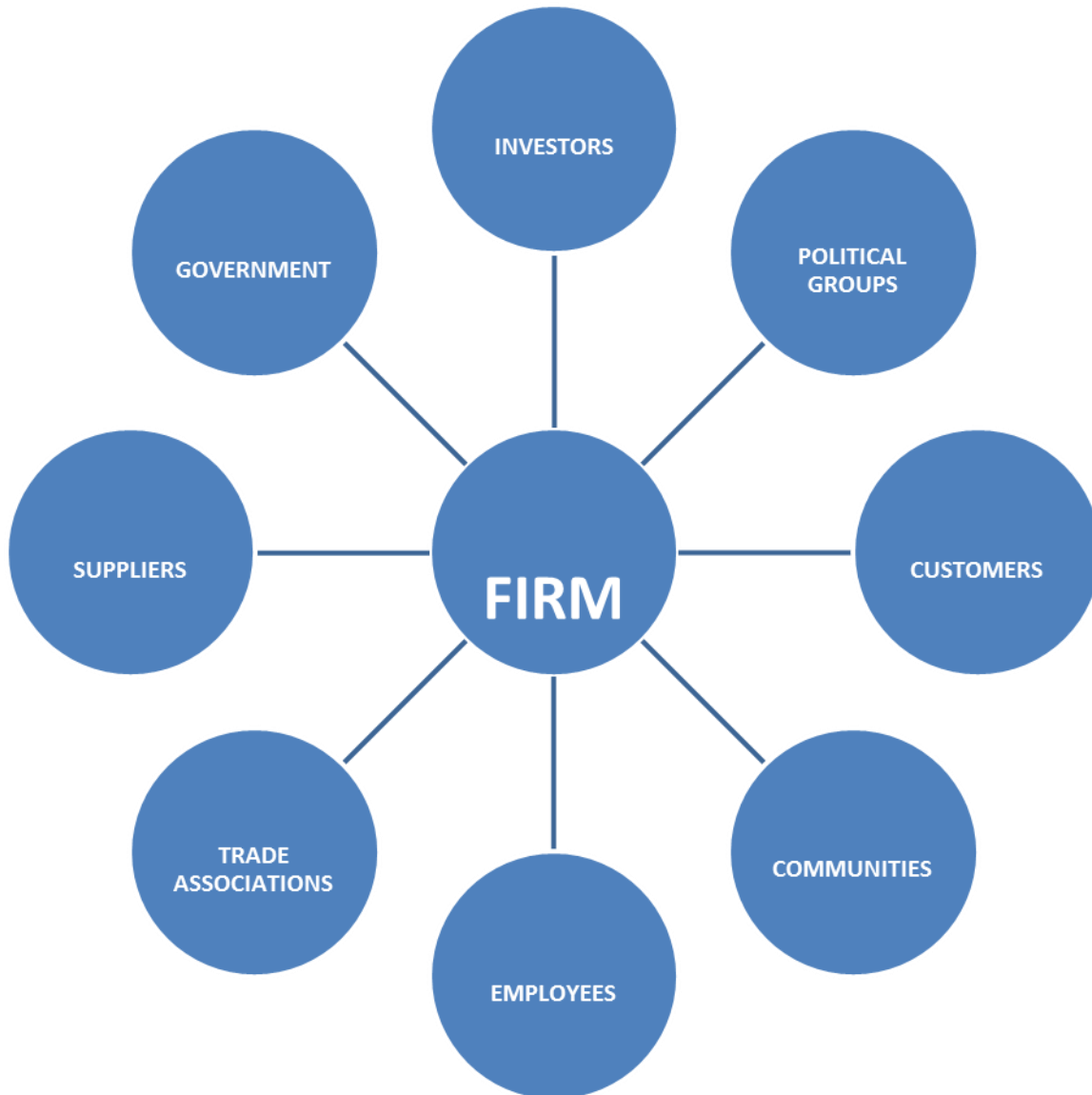


Figure 3.1: The Stakeholder Model (Donaldson and Preston, 1995)

Esser and Dekker (2008) pointed out that Directors are expected to manage a company in the best interests of the shareholders collectively. This traditional view is increasingly

being questioned. There is pressure on companies and directors to take into account not only the shareholders when they manage a company, but rather the interests of all stakeholders, such as employees, creditors, consumers, suppliers, the environment and the community. A company is represented by several interests, including those of shareholders, employees and creditors. Below Esser and Dekker (2008) explained the intersections between stakeholder theory, BBBEE and corporate governance. Esser et al. (*ibid*) argued that it is undeniable that BBBEE and good corporate governance overlap. This overlap is especially unique in the South African context due to the political past of the country and the need for socio-economic upliftment. The BBBEE Act forces companies, directly or indirectly, to consider the broader South African community within its political and socio-economic context. First, on a direct level, a BBBEE strategy of a company will ensure an increase in black participation (on the level of ownership, management, expertise and control) in all levels of the company. The strategy can also increase the extent to which rural and local communities, workers, cooperatives and women own and manage existing enterprises and develop new enterprises, as well as increase their access to economic resources, activities, infrastructure and skills training. It also develops appropriate human resources and skills. Secondly, at an indirect level, preferential procurement, involvement in enterprise development and socio-economic upliftment projects will ensure that the community at large reaps the benefits of corporate socially responsible conduct. The effect of BBBEE will therefore filter through to the community at large and the country. This amounts to compliance with the triple-bottom line. All BBBEE measures will qualify as socially responsible conduct, while all socially responsible conduct will not necessarily amount to BBBEE measures. In the South African business environment these two aspects should therefore be viewed as inter-linked and not as two separate issues. Donaldson and Preston (1995) argued that this theory focused on managerial decision making, the interests and the intrinsic value of all stakeholders and no sets of interests is assumed to dominate the others.

Stewardship Theory

An alternative to agency theory is stewardship theory coined by Donaldson (1990a & 1990b) and Barney (1990). This theory proposed that the executive manager essentially aims to do a good job and that there is no inherent general problem of executive motivation. With the absence of self interest of executive management the focus is on the degree to which executives achieve good performance. Consequently, this theory is also contingent on the extent to the structural circumstances in which the executive is located facilitates effective action by the executive. By implication this requires that structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations and authorise and empower senior management.

Donaldson (1990) argues that in terms of the role of the CEO, structures will assist them to attain superior performance, that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged. Further proponents of this theory (Donaldson, 1990 and Barney, 1990) argued that good performance is attained readily where the CEO is also the chair of the board. This theory proposed that the power and authority is concentrated in the CEO. Furthermore, the focus is on the in providing facilitative and empowering structures for CEO duality to produce superior returns for shareholders

Interestingly, some empirical studies failed to find support for agency theory (Stigler and Friedland, 1985). Whilst other studies was favourable to stewardship theory (Vance 1978; Sullivan, 1988 and Donaldson and Davis, 1991) and again other studies obtained mixed results (Rechner and Dalton, 1988; and Zahra and Pearce, 1989). This indicates that stewardship theory deserves further investigation in future work and board composition and performance should not be restricted to agency theory and organisational economics.

Another development in governance thinking and practice by Luo, Chung and Sobczak (2009) in the developed world, is one of the most prominent distinctions has been made

between the shareholder model, which characterizes the US and UK, and the stakeholder model, which characterises Japan and Germany (Ahmadjian and Robbins, 2005; Fiss and Zajac, 2004) and the family model (Khanna and Rivkin, 2001; Luo and Chung, 2005).

Resource-based view

Resource-based view (RBV) was used to emphasise how effective board-management relationship can be considered as internal critical capability and hence can be a source of competitive advantage. In accordance with Barney (1991) a resource that provides a sustainable competitive advantage satisfies three criteria, namely, it is rare, creates value, be inimitable and not easily substitutable. Barney's research provided a framework for the characteristics of a value creating resource. First, the resource must be valuable and able to generate high financial value to the firm. Second, the resource must be rare and scarce and not possessed by competing firms in the same industry. Finally, in order to render a sustainable competitive advantage, a resource must be difficult to imitate by a firm's competitors.

From the RBV perspective, the unique characteristics of corporate governance systems, processes, policies, protocols and practices can serve as a critical capability which generates sustainable competitive advantage especially when it meets the three above-three conditions (Carney 2005; Castanias and Helfat 2001; Gadhoun 1998).

First, the board member's extended network of superior connections to providers of critical resources (e.g. suppliers, potential and current investors, government agencies, financial institutions) is likely to create economic value for a firm. Secondly, companies' use varied governance practices in comparison to competitors in an industry. The varied governance practices could relate to: (1) firmness, reciprocity and sustainability of effective board-management relationships; (2) knowledge, reputation, behaviour and values of individual directors and executives; and (3) broader institutional context in which the company operates. Therefore, board-management relationships in each

company are individually embedded and constitute tacit knowledge or a distinctive resource.

Leonard (1998) argued that from the RBV perspective there is an emphasis on the notion of 'path dependency' which suggested that rare resources are developed over time through opportunities that do not repeat themselves (Leonard, 1998). Below Leonard (*ibid*) explained some of the characteristics of the resource-based view. For example, board-management relationships evolve in tandem with major organisational transitions instigated by significant business growth or downturn. These business cycle transitions influence and affects the evolution of board-management relationships which often develop into capabilities that are unique to the organisation. Thirdly, there is a barrier to imitation that emanates from peculiar governance practices rooted in close relationships with customers and suppliers and the reputation of individual board members and top level executives. The varied interactions of executives and board members with various stakeholders create strong trustful relationships. The maintenance of long-standing connections with various stakeholders cultivates strong ties characterised by mutual trust and it is this reputation which enables the firm to gain a competitive edge over its competitors. Another barrier to imitation is the intricacy of board dynamics and interpersonal chemistry, which makes board-management relationships a socially complex resource. Although there is a myriad of literature (Carter and Lorsch 2004; Demb and Neubauer 1992; McNulty et al. 2003) available regarding effective board functioning there is a lack of methodology of developing close relationships and initiating team-work. The extent literature does not provide definitive measures for growing effective board-management relationships and still remains highly ambiguous. These scholars argued that growing effective board-management relationships is often an intricate and complex social interaction process that reflects constraints of institutionalised norms, individual values and effort. This socially complex resource increased the difficulty to imitate by competitors.

Contingency studies

From a contingency or contextual perspective Gabrielsson and Huse (2004) governance practice are influenced and the relative power of the board of directors depends on the firm's surrounding context. The secondary analysis of 27 literature sources by (Gabrielsson *et al*, 2004) reveals that 13 articles (about 5 percent) covered the contingency approach. Further the analysis of contingency studies suggested that efficiency is not generic and emanated from and is on contingent on what is efficient in a particular firm, industry, or country, its context. In addition, Gabrielsson *et al (ibid)* further argued that corporate governance designs and conceptualisations are embedded in a broader institutional and social environment and it is the efficiency of the context that influences the relative power of the board. The relative power of the board is determined by the evolving and developing relationships between internal and external stakeholders and other environmental issues. Another perspective is that various governance theories are adapted to the context in selecting a governance regime. (Gabrielsson *et al.*, 2004) used a broad variety of data collection instruments including statistical analysis of archival data, survey data, interviews, and content analysis of media sources.

The table 3.3 below depicts the three groups of contingency variables that have emerged from an analysis of secondary data.

Research Stream	Contingency variables	Scholars
First sub-group	The selection, composition, and interlocks of board members reflect the strategic contingencies a firm faces in its internal and external environments	Boyd 1990; Grundei and Talaulicar 2002; MacCanna, Brennan, and O'Higgins 1999; Pearce and Zahra 1992; Westhead 1999)
Second sub-group	Governance structures are seen as configurations of	Beatty and Zajac 1994; Coles, McWilliams, and

	interdependent elements. Hence, the scholars in this subgroup have begun to study them as complements or substitutes rather than regarding any particular aspect of governance as essential.	Sen 2001; Rediker and Seth 1995; Zajac and Westphal 1994
Third sub-group	studies focusing on how differences in stakeholder power influence corporate governance and boards of directors	Buck, Filatotchev, and Wright 1998; Gedajlovic and Shapiro 1998; Huse and Rindova 2001

Table 3.3: Source - Three Groups of Contingency Variables (Gabrielsson and Huse, 2004)

Gabrielsson's et al (2004) analysis of contingency studies revealed that governance practices of boards vary depending on the firms' internal and external contexts. Consequentially, the characteristics of a firm's internal and external context shape decisions surrounding corporate governance.

Behavioural studies

Behavioural studies included the assessment of processes, decisions, interactions and relationships amongst board stakeholders Gabrielsson and Huse (2004). Among the 127 corporate governance articles reviewed, 13 articles (about 5 percent) were placed in this category. Gabrielsson *et al. (ibid)* suggested that scholars of behavioural studies agreed that effective governance is cultivated through formal regulations and policies as well as behavioural dynamics of boards. These scholars proposed that future studies should consider processes and relational dynamics of boards and the impact on board-level and firm-level outcomes. Gabrielsson *et al. (2004)* further proposed that boards

may play various roles in carrying out their duties, and that actual board task performance may diverge from stakeholder expectations of board roles (Forbes and Milliken 1999; Mace 1971). They further also suggested that multiple theoretical perspectives are required to fully understand board behaviour. Previous primary research on behavioural studies analysed a number of data collection instruments including in-depth interviews, content analysis and longitudinal field studies

Two subgroups could be identified in this category.

Gabrielsson *et al.* (2004) categorise the behavioural literature into two categories.

Research stream	Behavioural variable	Scholars
First sub-group	Board processes are included as variables between board composition and firm performance, thus splitting the overall board composition and corporate performance link in intermediate steps. Intervening board processes are argued to influence the decisions of the board members. The working structures and processes in and around the boardroom are predicted to have a major impact on the efficiency of the board members. Several of the authors publishing in this subgroup are also publishing studies in the input–output category.	Carpenter and Westphal 2001; Golden and Zajac, 2001; Gulati and Westphal 1999; Judge and Dobbins 1995; Judge and Zeithaml 1992; Pearce and Zahra 1991; Westphal 1998, 1999; Westphal and Zajac 1998; Dobbins 1995; Judge and Zeithaml 1992; Pearce and Zahra 1991; Westphal 1998, 1999; Westphal and Zajac 1998
The second subgroup	Studies that are more directly focused on the locus of power in	Ng and DeCock 2002; Pitcher, Chreim, and Kisfalvi, 2000;

	<p>and around the boardroom, as well as the behaviours, decisions, and activities of the directors. Attention is particularly directed to their internal relationships with one another, in order to understand conditions for effective boards and governance.</p>	<p>Stewart 1991; Stiles 2001</p>
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Table 3.4 Source - Categories of behavioural literature Gabrielsson and Huse (2004)

Evolutionary studies

(Gabrielsson *et al.*, 2004) proposed evolutionary theories which are studies that explore both context and behaviour. These studies consider governance as a system enshrouded by power and the attributes of internal and external stakeholders in and around the boardroom. . Gabrielsson *et al.* (2004) motivated that these variables are best depicted by the research done by Christensen and Westenholz (1999) and Pye (2002). Research by Christensen and Westenholz (1999) focused on the relational dynamics and the development of relationships with varied internal and external stakeholders.

The second article by Pye (2002) reported that the rhetoric leans towards creating shareholder value emanating from the concentration of power of directors, investors, and financial analysts. There is little or no focus on other conceptions of corporate governance and the discourse is biased towards shareholder thinking. Gabrielsson *et al.* (2004) argued that both articles take an evolutionary perspective by comparing and contrasting longitudinal data to better understand changes in context. In addition (Pettigrew 1992), recognised that boards can be considered as open systems that are influenced by changes in both the internal and external environments and board develop over time.

3.7 Board structure

The extant literature on corporate governance argued that board structure can improve board performance and consequentially corporate governance. Tricker (1994) argued that board structure distinguished between inside directors and outside directors. In addition, Zahra and Pearce (1989) identified other dimensions of board structure, such as the number and types of board committees, committee membership, the flow of information among these committees and patterns of committee membership. The section below cover the scholar contributions of board structure to improved corporate governance.

Research done by Dey and Chauhan, (2009) indicated that board composition play a substantial role in corporate performance. Dey and Chauhan (*ibid*) go further to fully define all the dimensions of board composition that have to considered that impact performance. Board composition referred to the number of directors (board size) and the type, as determined by the usual insider-outsider classification. Insiders are the current members of top management teams, and employees of the company or its subsidiaries. Outside directors have no such association, but are further classified into affiliated or non-affiliated (independent). Affiliated outsiders are not members of the current management, or employees of the company, but have some influential link with the firm, for example, as consultants. Non-affiliated outsiders are usually referred to as independent directors. These independent directors are recruited primarily because of their expertise, name, recognition and skills (Pearce and Zahra, 1992).

A review of studies that focus on board structure revealed that the proportion of internal versus external directors was a focus of many scholars (Fama and Jensen, 1983; Cadbury, 1992; Dey, 1994; Eisenberg, Sundgren and Wells, 1998; Becht, Bolton and Roell, 2002), whereas other studies covered board diversity with a focus on cultural and gender dimensions was studied by (Orser, 2000; Brown, Brown and Anastasopoulos, 2002).

Table3.5: Compositional factors of the board

Author	Compositional factors of the board
Ammer, Ramli and Zakaria (2010)	Claim that outside directors are believed to be more effective monitors of management on behalf of shareholders and their theory has been supported by other researchers
Scarborough, Haynie, and Shook (2010)	Having a proportion of outside members on the board helps to alleviate the extent to which there are conflicts of interests. When these scenarios arise, a board's independence allows it to challenge management, thus promoting board activism
Dey and Chauhan (2009).	Outside directors have no such association, but are further classified into affiliated or non-affiliated (independent). Affiliated outsiders are not members of the current management, or employees of the company, but have some influential link with the firm, for example, as consultants. Non-affiliated outsiders are usually referred to as independent directors.
McIntyre, Murphy and Mitchell (2007).	A finding from research showed that a high average proportion of directors who hold outside Board positions is associated with decreased levels of firm performance.
Choi, Park and Yoo (2007)	Board independence is measured by the ratio of outside directors to the board size. Directors are classified in a manner similar to the schemes used by Weisbach (1988), Byrd and Hickman (1992), Brickley, Coles, and Terry (1994), and Hermalin and Weisbach (1998).
Dahya, McConnell and Travlos, (2002)	In 1992, the Cadbury Committee issued the <i>Code of Best Practice</i> which recommends that boards of U.K. corporations include at least three outside directors and that the positions of chairman and CEO be held by different individuals. The underlying presumption was that these recommendations would lead to improved board oversight.
Weisbach, (1988)	Outside directors will have an incentive to ensure the effective running of the company because directors of well-run companies signal their competence to the market.

Author	Compositional factors of the board
Jensen (1986)	Claims that the internal control mechanism of corporations, which operate through the board of directors, generally work well.
Fama and Jensen, (1983)	Agency theory emphasised the role of the board in monitoring the behaviour and performance of executives
Jensen and Meckling, (1976)	Agency theory attempted to describe this relationship using the metaphor of a contract.

Table 3.5: Mapping of scholarly view on the composition of boards

Vance (1978) pointed out that boards of directors in American enterprises are unique in that they are reconstituted periodically through co-optation, that is, they are elected and re-elected by the votes of the existing members. Technically, of course, each prospective member is nominated by the board and the nomination is then formalised in proxy statements sent to stockholders who ratify the election at the stockholders' annual meeting. Because this is just a formality, contested elections become a rarity and by this process of co-optation, boards of directors perpetuate themselves.

Ammer, Ramli and Zakaria (2010) claimed that outside directors are believed to be more effective monitors of management on behalf of shareholders and their theory has been supported by other researchers (Fama and Jensen, 1983; Jensen and Meckling, 1976; Daily and Johnson, 1997; Dalton and Rechner, 1989; Weisbach, 1988; Dahya, McConnell and Travlos, 2002).

Ameer, Ramli and Zakaria (2010) applied a board typology (human capital, social capital and resource-based factors) to 227 Malaysian firms over the period 2002-2007. The findings showed that firm boards with a high representation of outside and foreign directors are associated with better performance compared to those firm boards that have a majority of insider executive and affiliated non-executive directors. Also the findings seem to imply that in widely owned firms, a higher proportion of outsiders on the board may reduce under-investment and agency problems compared to insider- and affiliated director-dominated boards.

According to Choi *et al* (2007) outside directors are defined as those that are neither current nor former employees nor members of management of the firm or their relatives. Independent directors are outside directors that have no current or potential business ties with the firm. Choi (*ibid*) made a further distinction with gray directors defined as outside directors who appear to have current or potential business ties with the firm by virtue of their professions, such as lawyers, accountants, consultants, or bank executives

Some scholars conducted research to unravel and develop knowledge on outside directors impact on firm performance and share prices. Existing empirical studies of U.S. firms show inconclusive results. Rosenstein and Wyatt (1990) showed that the appointment of outside directors is positively related to stock price reactions. However, other studies such as Hermalin and Weisbach (1991), Mehran (1995), Yermack (1996), Klein (1998), and Dalton, Daily, Ellstrand, and Johnson (1998) found no association between the presence of outside directors and firm performance. Agrawal and Knoeber (1996) even reported that firm performance is negatively related to the percentage of outsiders on the board, with the implication that boards are not optimally constructed to maximise firm value.

Within the Malaysian context Ammer, Ramli and Zakaria (2010) defined three types of directors:

- A director as a non-independent director if that director is a former employee of the company or any of its associated companies under any designation (including executive director, CEO, chairman, or member of any committee). In the literature, such directors are also referred to as “grey directors”. This category also includes CEO/CFO/chairman/director who sits on the boards of other firms besides the “home firm” (also referred to as cross-directorship). Director existence on more than one board makes them less independent as they will become more sympathetic with others in similar situations. Shultz (2001) called this the “kindred spirit” phenomenon. Since Malaysia permitted a director to hold up to 25 directorships at

one time, of which ten may be in publicly listed companies and 15 in unlisted companies. In most Malaysian firms, non-independent directors are often re-elected at the AGM, which seems to be in line with the resource-dependence perspective.

An outside director as an independent director in two ways:

- A director who has no shareholdings and no current or potential business ties with the firm and who represents any of the five major institutional investors in Malaysia.
- (Douma, George and Kabir, 2006) argued that the value of a director who is a foreign national registered on the board. They argue that by having a foreign investor appointed as a member on a board brings different cultural and ethical values and norms (Sullivan, 1994) that might produce changes in the corporate internal controls and ethical practices of the firm. Furthermore, Pass (2004) extended his approval of such action because as members of such committees, foreign directors can monitor executive actions and question executive decisions more objectively than other outside directors.

Daily and Dalton (1997) CEO duality is highly contested and a recurring argument in this controversy is the assertion that a board chair should be an independent monitor/arbiter/counsellor of a firm's management, especially of the CEO. Separate CEOs and board chairs provided this independence. With CEO duality, Daily and Dalton argued that, oversight maybe compromised, directors may feel unable to ask the right questions, raise the right issues, or make the right judgements. According to Agency Theory another harsher view is that many fund managers want to see outside directors installed as chairmen of the board because they do not trust CEOs to serve the shareholders interest.

Race and gender representivity on boards in South Africa

Women made up 52% of the South African population in 2012 but accounted for just 3.6% of CEO positions, 5.5% of chairperson positions, 17.1% of directorships and 21.4% of executive management positions (Women in Leadership Census, 2012).

According to the census, women account for 17.1% of directorships in 2012, up from last year's 15.8%, while 21.4% of executive managers are women, around the same as last year. These figures are based on 329 companies comprising 252 main board JSE companies, 57 Alt-X companies and 20 state owned enterprises. Just over 89% of the companies included in the census verified their details.

When it comes to total numbers of women directors, the number is rising slowly. There are 669 in 2012 compared to 646 in 2011, holding 1,224 directorships compared to 1,127 in 2011. Executive directors number 498, up from 467, while non-executive directors number 726, up from 660. From the companies included in the census, female executive managers number 1,452 in 2012, down slightly from 1,461 in 2011. Significantly, the census showed that there are more white women than black women in executive manager positions, but more black women in director positions.

Table 3.6 Demographic characteristics of public entities in South Africa

Companies	Total number of directorship positions	No. of Black Directors
Industrial Development Corporation	9	6
Denel	23	12
Eskom Holdings	15	11
Eskom Enterprises	12	9
Transnet	17	13
Telkom	11	7

Table 3.6: Demographic characteristics of public entities (Annual Reports, 2003)

Table 3.6 above reflects that in the Public Sector a number of board of director positions were awarded to black directors.

3.8 History of Corporate Governance

Kneale (2012) argued that the history of corporate governance is marked by the publication of a series of reports, codes of best practice and legislation, designed to address failings in the ways in which business is regulated and conducted. The impetus for corporate governance regimes emerged from financial scandals involving UK listed companies during the 1980s. There was a concern with poor quality and accuracy of financial reporting. In 1992, the publication of the Cadbury Code laid the groundwork for a series of follow-up committees, reports and codes of practice culminating in the Combined Code, first published in 1998. The Combined Code was subsequently revised by the Higgs and Smith Reports.

Developing countries required foreign direct investment and this is contingent on providing sound institutional structures and good governance practice. This was the basis of the OECD Principles of Corporate Governance, published in 1999. This development of these principles led to the development of first report of the King Committee in 1994. Development of the King Report resulted in formation of the Commonwealth Association for Corporate Governance (CACG) and the production of corporate governance guidelines. The US was a late comer to the corporate governance with the Sarbanes-Oxley Act as a result of corporate scandals of 2001 and 2002.

3.9 Importance of good corporate governance

Khosa and Adam (2005) argued that concerted efforts were made by various economic development agencies in Africa to ensure that corporate governance become part of the African corporate personality, both in law and practice. They further surmised that when a company has good governance practices in place, the board can rely with confidence on its processes and systems, particularly the mechanism for control and monitoring. The consequence they argue is that the board can empower management by delegating effectively within the governance framework.

Aggressive competition exists in the global market for capital and this market is characterised by the movement of capital, people and information. The consequential outcome is that it has led to the development of new markets and new sources of the products and services required to satisfy them.

The developing world is dependent on the developed world for needed capital with which to stimulate local economic growth. The increased cross border flow of capital brings with it the requirement for uniform standards of good governance. Institutional investors, in particular, are wary of the risks associated with investments in the developing world. The myriad of investors extend beyond meaningful returns to the manner in which that return is generated.

In Africa, the New Partnership for Africa's Development (NEPAD) has provided an impetus for improving the corporate governance framework across the whole continent. The intense competition for capital thus increases the pressure for effective governance in developing countries. This presents a unique opportunity to improve the performance of public entities, like state-owned enterprises through better governance frameworks.

Khosa and Adam (2005) postulated that every scandal and every lapse in good governance sets back a country's case for foreign inward investment. Shareholders are entitled to expect that their capital is used for its intended purpose. Every act of corruption represents an abuse of that expectation.

3.10 Governance regimes and reforms in South Africa

Fraser-Moleketi (2003) argued that there are a number of anti-corruption structures, although there is a need to clarify their respective legislative mandates. Asset forfeiture through the civil process, is a powerful weapon in the fight against corruption. The Asset Forfeiture Unit and the Special Investigating Unit (SIU) have used this weapon effectively. The Office of the Auditor General, the Public Protector and the Independent Complaints Directorate are in line with global best practice. The experience gained from the Special Commercial Courts illustrates some of the options that are available.

Many government departments have introduced Anti-Corruption Units and efforts are underway to address delays in disciplinary cases.

The Corruption Assessment Report (2003) was commissioned by the Department of Public Service and Administration. An overview of various studies on corruption in South Africa immediately revealed that there was no standard approach in terms of definitions, methodologies, samples and sources. Based on the information that was available, a reliable answer could not be provided for the extent of corruption within South Africa. In order to be able to answer that question, one would require reliable and compatible information on at least three aspects of the corruption: firstly, the public and/or specialised groups' perception about how much and which type of corruption exists; secondly, the actual experience of corruption of the target populations; and thirdly, records of reported and processed cases of corruption within the public, private and civil society sectors.

The National Public Service Anti-Corruption Strategy

Achieving good governance and fighting corruption are among the most important challenges facing South Africa and its Government. Indeed, a number of anti-corruption initiatives were undertaken post-1994, culminating in the adoption of the Public Service Anti-Corruption Strategy. Among the many anti-corruption initiatives, of particular importance for the development of strategic anti-corruption partnership and guidance were:

- **1997:** Adoption of the Code of Conduct for the Public Service; the establishment of an Inter-Ministerial Committee on Corruption tasked with the development of a national anti-corruption campaign.
- **1998:** Moral Summit held by the religious and political leaders and the adoption of the Code of Conduct for leadership; the Public Sector Anti-Corruption Conference which adopted the key points for fighting corruption in a partnership manner
- **1999:** The National Anti-Corruption Summit which adopted parameters for the development of South Africa's National Anti-Corruption Programme; the first meeting of

the Cross Sectoral Task Team on Corruption; hosting of the 9th International Anti-Corruption Conference

- **2000:** Government and UNODC/ROSA holding jointly the International Anti-Corruption Expert Round Table
- **2001:** Government and the UNODC/ROSA signed an agreement on the United Nations Support to the National Programme against Corruption; Public Service Anti-Corruption Workshop with main stakeholders on the development of the anti-corruption strategy; launch of the tripartite (Government, Business and Civil Society) National Anti-Corruption Forum
- **2002:** Cabinet adopted the Public Service Anti-Corruption Strategy

Legislative Framework

Managerial policies and rules play a crucial role in the prevention and detection of corruption. The legislative framework for the financial and general management of the public service is both strong and comprehensive. However, the survey of the provincial governments has revealed that the ability to implement risk management procedures is uneven and limited.

Reporting and whistle blowing

Whistle blowing is crucial to the detection of fraud and corruption. For a whistle blowing mechanism to be effective, there must be effective protection of the identity of the whistle blower and there must be effective follow-up of all bona fide disclosures. Most government departments do not have policies and procedures in place to comply with the Protected Disclosures Act

Anti-Corruption Co-ordinating Committee

Cabinet has decided against establishing a single anti-corruption agency. Instead, it has decided to implement incremental improvements to the existing agencies as proposed

in the Public Service Anti-Corruption Strategy. As a result, the Anti-Corruption Co-ordinating Committee has been established.

Chronology of National Initiatives

March 1997: the Government Ministers responsible for the South African National Crime Prevention Strategy (NCPS) established a programme committee to work on corruption within the Criminal Justice System.

June 1997: by June 1997, the Code of Conduct for the Public Service had become part of the regulations governing every public servant and was the subject of an ethics promotional campaign by the then Public Service Commission.

September 1997: the South African NGO Coalition (SANGOCO) took the initiative to develop a Code of Ethics. This challenged other sectors to identify their core values relating to issues of governance, accountability and management.

October 1997: an Inter-Ministerial Committee on Corruption consisting of the Ministers of Justice, Public Service and Administration, Safety and Security and Provincial Affairs and Constitutional Development, was appointed on the strength of a cabinet decision. Its mandate was to consider proposals for the implementation of an anti-corruption campaign at both the national and the provincial level. After research and consultation with numerous role-players, an Inter-departmental Committee appointed by the Ministers finalised a report containing proposals for an effective national campaign against corruption.

September 1998: the proposals set out by the Inter-departmental Committee on Corruption were endorsed by the Cabinet Committee for Social and Administrative Affairs and approved by Cabinet on 23 September 1998 as part of a National Campaign Against Corruption.

October 1998: in response to what they described as the “deep moral crisis”, the country’s religious leaders called a Moral Summit in October 1998. A Code of Conduct for people in leadership positions and a humanitarian ethics pledge was adopted by President Nelson Mandela among others.

November 1998: the Public Sector Anti-Corruption Conference was held in Parliament, Cape Town from 10-11 November 1998: This conference was attended by over 200 delegates. The aim of the conference was to develop a concrete plan of action to combat and assist in the prevention of corruption within the public sector.

January 1999: a strategic co-ordination meeting of most governmental agencies was convened in response to the call for closer cooperation made at the Public Sector Conference.

April 1999: the National Anti-Corruption Summit was held in Cape Town on 14-15 April 1999. The purpose of the Summit was to discuss the importance of eliminating corruption in both the public and private sectors; to develop recommendations to improve investigation and prosecution procedures; to implement effective and co-ordinated anti-corruption structures; to review legislation; to enhance business's role in the fight against corruption.

More than 300 representatives, including government leaders, businesses, organised religious bodies, the NGO sector, donors, the media, organised labour unions, academics, professional bodies and the public sector participated in the Summit.

August 1999: the Public Service Commission convened the first meeting of the Cross Sectoral Task Team on Corruption. Comprised of representatives from government, business and civil society. This body was tasked with implementing the resolutions from the National Summit and engaging all sectors in the fight against corruption.

October 1999: the South African government co-hosted the 9th International Anti-Corruption Conference in Durban with Transparency International from 10-15 October

1999. The conference was attended by more than 1600 delegates from over 135 countries. Delegates were drawn from government, business, civil society and international organisations.

February–June 2000: on 23 February 2000 President Mbeki established the Investigating Directorate: Corruption (IDCOR) as a new unit within the Directorate of Special Operations of the National Director of Public Prosecutions. The unit was given a broad mandate to deal with “offences related to corruption”.

October/November 2000: Cabinet instructed the Department of Public Service and Administration (DPSA) to develop and implement a comprehensive and holistic anti-corruption strategy.

June 2001: on 15 June 2001 the National Anti-Corruption Forum was launched in Langa, Cape Town.

August 2001: the Public Service Commission completed an audit of national departments and agencies, which had an anti-corruption mandate in place. The findings from this report fed into the Public Service Anti-Corruption Strategy.

June-December 2001: the Public Service Commission commissioned research into the functioning of hotlines, risk management by provinces, blacklisting of businesses and financial disclosure. The research findings and recommendations were revealed to Parliament in May 2002.

January 2002: a draft discussion document on Public Service Anti-Corruption Strategy was prepared and presented to the Cabinet Lekgotla in January 2002, where it was adopted. The strategy proposes a holistic and integrated approach to fighting corruption. The approach combines a strategic mix of preventive and combative activities and a consolidation of Government’s institutional and legislative capabilities.

The Prevention of Corruption Bill (April 2002)

The Prevention of Corruption Bill provides a workable definition of corruption. It reinstates the common law crime of bribery; it creates a presumption that acceptance of a favour is corrupt in order to facilitate prosecution; and it extends the scope of the Act to all public officials, private persons and their agents.

The Criminalisation of Corruption

Corruption is a statutory offence in South Africa and bribery will once again be regarded as a common law offence. The Prevention of Corruption Bill creates new offences within the broad category of corruption. It also, reinstates the common law offence of bribery. The Bill criminalises corrupt actions undertaken outside South Africa by any South African citizen; anyone domiciled in South Africa, or by any foreigner,

Public Finance Management Act 29 of 1999

The Public Finance Management Act No.1 of 1999 (as amended by Act No.29 of 1999) is one of the key pillars of public sector governance in South Africa. It is therefore important to discuss its implications for state-owned enterprises.

The emphasis in the Act is on the prevention of mismanagement and unauthorised expenditure, rather than on detection after the event and remedial action. The Act applies to National and Provincial government institutions and the entities under their control.

Chapter 5 of the Act ensures that all National and Provincial institutions and entities have Accounting Officers. It spells out their responsibilities and the disciplinary sanctions that will apply in the event of negligence in fulfilling these responsibilities. Accounting Officers are required to produce monthly and annual financial reports for their political heads (Executive Authority). The Act outlines the responsibilities of political heads and Accounting Officers to prevent over-spending on budgets. The

shifting of funds between programmes (or the main divisions within a Vote) is regulated by the Act.

Chapter 10 of the Act defines financial misconduct and deals with the procedures for disciplining public officials found guilty of financial misconduct. Provision is made for criminal prosecution in the event of gross financial misconduct.

Chapter 11 establishes an Accounting Standards Board, which has the power to determine generally, recognised accounting practices for the public sector.

The Public Finance Management Act is comprehensive piece of legislation. The objective is to secure accountability and sound management of revenue, expenditure, assets and liabilities of the institutions. The PFMA make the below mentioned provisions:

- It establishes the National Treasury, and deals with its composition, functions, powers and responsibilities.
- It establishes provincial treasuries and deals with their composition, powers and functions, and the management of provincial revenue funds.
- It addresses the budget process and deals with the timing and content of national and provincial budgets
- It ensures that all departments and constitutional institutions have accounting officers, and sets out their responsibilities. The Act requires that accounting officers produce monthly and annual financial reports in an attempt to promote accountability and sets out their fiduciary duties and general responsibilities.
- It addresses the financial responsibilities of ministers and members of the provincial executive councils (MECs) who are in essence ministers at a provincial level.
- It set out specific provisions relating to public entities (state-owned enterprises).
- It prescribes specific requirements regarding loans, borrowings, and other financial commitment like the issuing guarantees, indemnities and securities.
- The National Treasury is empowered to issue Treasury Regulations and instructions.

- It introduces and defines the concepts of fruitless and wasteful expenditure and financial misconduct
- It establishes an Accounting Standards Board that will have the power to determine generally recognised accounting practices for the public sector.
- The Public Finance Management Act prevails and supersedes other legislative guidelines in the event of inconsistency with any other legislation.

The Public Finance Management Act is a broad instrument and applies to government departments, public entities (which includes state-owned enterprises) listed in schedule 2 and 3, constitutional institutions, Parliament and the provincial legislatures. In essence the intention is that the Act is applicable to all spheres of government (except local government, which is subject to the Municipal Finance Management Act, No.56 of 2003)

Shortcoming of the Public Finance Management Act (PFMA, 1999)

Khosa and Adam (2005) argued that in particular the provisions that raise concern are those applied to state-owned enterprises that have commercial objectives (especially those that have been established as companies). The question that should be asked is management act apply to state-owned enterprises (especially those that have been incorporated as companies) that have a commercial objective and are ultimately required to compete on an equal footing with the private sector. Or could the objectives of effective corporate governance, accountability, and transparency be achieved without the Public Finance Management Act in the case of state-owned enterprises.

Khosa *et al.* (*ibid*) further argued that in implementing the practice of good governance it is important that state-owned enterprises with a predominantly commercial objective are not burdened unnecessarily with requirements that do not apply to private sector companies. Additional requirements could mean that that state-owned enterprises incur higher in delivering the same product, thereby tilting the playing field in favour of private sector companies. State-owned enterprise that are incorporated as a company abide

by the existing principles of company law and this is sufficient to secure appropriate accountability and good governance. The Public Finance and Management Act does provide a mechanism for state-owned to apply for a total or partial exemption from its provisions. Khosa and Adam (2005) contended that in practice, the National Treasury is not keen to provide exemptions and the only successful application thus far for a total exemption has been that of Telkom (a provider of telecommunications).

More insights by Khosa and Adam (2005) are that state owned enterprises with a predominantly commercial objective found that the provisions of the South African Public Finance Management Act impede their ability to achieve their goals for the following reasons:

- The provisions of certain sections have the potential to interfere with the efficient and smooth running of a state-owned enterprise on a commercially viable basis. It establishes requirements that are administratively and logistically difficult to comply with and that may cause unnecessary delays. In particular, the need to apply for approval of certain transactions in terms of section 54 is a concern, as well as the wide powers of the Minister to make regulations on a range of issues including financial management and internal control, the framework for a procurement system or any other matter that may facilitate the Application of the Act. Consequently, the discretion of the board and its ability to conduct the affairs of the state-owned enterprise decisively may be compromised.
- The competitiveness of the state-owned enterprise dictates that the board and management are empowered to conduct its affairs appropriately. Restrictions in opening bank accounts, delegation of powers and with regard to certain transactions relating to loans, guarantees and other financial commitments are not conducive to competitiveness.
- The Public Finance and Management Act create uncertainty regarding the standard of conduct that is required from a director. Unless one is able to interpret the obligations imposed by the Act in terms of the ordinary company law duties of a director (to act in good faith, exercise fiduciary duties and to act with

reasonable care and skill), the obligations that flow from the Public Finance Management Act are unclear and unpredictable. Consequently, the provisions of the Act will be more difficult to enforce. Incidentally, this is not a problem for directors appointed to state-owned enterprises, but also affects all public sector employees.

- The lack of clarity coupled with the onerous obligations imposed on state-owned enterprises may also result in talented people not taking up positions as directors in state-owned enterprises.

From the perspective of strengthening governance in the Public Service came the introduction of the Public Finance Management Act (PFMA) in 1999, which introduced much more rigorous standards for reporting and accountability. The approach to financial management in public sector institutions focused on performance in service delivery, and economic and efficient deployment of state assets and resources. It was also followed by a government policy protocol that laid down comprehensive guidelines for good corporate governance in public sector institutions. This emphasised the government's own requirements for high standards of accountability and good governance in public institutions falling under its direct control and supervision.

Municipal Finance Management Bill (2002)

A municipal official to whom a power or duty is delegated commits an act of financial misconduct if that official wilfully or negligently fails to exercise that power properly or perform that duty. Financial misconduct is ground for dismissal or suspension.

The Preferential Procurement Policy Framework Act (5 of 2000)

The Preferential Procurement Policy Framework Act of 2000 gives effect to Section 217(3) of the Constitution by setting out a framework for the implementation of a preferential procurement policy which provides for preferential procurement from certain categories of persons. The National Treasury is formulating a preferential supply chain

policy strategy for government. The strategy will establish short and medium term national targets for preferential procurement policies.

Promotion of Access to Information Act (2 of 2000)

The Promotion of Access to Information Act (PAIA) gives effect to the right of access to information enshrined in Section

32 of the Constitution, namely; that everyone has the right of access to:

- Any information held by the state; and to
- Any information that is held by another person and that is required for the exercise or protection of any rights.

The constitutional entrenchment of a right to access to information legislation is unique. This is undoubtedly a reaction to the secretive and bureaucratic tendencies of the apartheid state. The entrenchment of this right is intended to ensure that a secretive and unresponsive culture in both public and private sectors does not develop. Such a culture is often associated with the abuse of power, human rights violations and corruption. The Act over-rides other legislation which provides for secrecy.

The Act promotes good government and good corporate governance. It will foster a culture of transparency and accountability in public and private bodies.

The PAIA provides the public with a statutory right of access on request to any record held by the state, with certain limited exceptions. Requests for public sector records in terms of the Act do not have

Promotion of Access to Information (2000)

The Promotion of Access to Information Act creates a right of access to the information of public and private bodies. A public body includes government departments at all levels of government, any functionary exercising a power or performing a duty in terms of the Constitution or any functionary exercising a public power or performing a public function in terms of any legislation. Any public entity, state-owned enterprises and private body contracted to perform a public function would fall into the latter category.

This means that as long as the requestor complies with formalities, and the information is in the possession or under the control of the public body to which the request is being directed, no reason for the request is required. The information must be disclosed unless the public body can rely on one of grounds for refusal specified in the Promotion of Access to Information Act.

In terms of the Act, private and public bodies are required to publish a manual that is available to the public, setting out certain prescribed information to facilitate requests for records (section 14 and 51). The Promotion of Access to create a balance and acknowledge the objective of giving effect to a right of access in a manner that is balanced with other rights and that is subject to limitations for the reasonable protection of privacy, commercial confidentiality and effective, efficient and good governance (section 9). Consequently, the Act sets out the grounds under which a request for a record can be refused. These grounds comprise an exclusive list; this means if the body to which the request is being directed justify a refusal on one of the prescribed grounds, the request cannot be refused. The grounds for refusal can be classified into three categories:

- Refusal based on the content of the information and consequence of disclosure, for example, financial information (content) that may cause harm (consequence)
- Refusal based on content alone (trade secrets), and;
- Refusal based on the consequences only (for example, where disclosure could endanger the life of an individual).

Promotion of Administrative Justice Act (3 of 2000)

For most of South Africa's past, administrative decisions have been shrouded in secrecy. The public did not know the decisions that were taken against them. The 1996 Constitution and the Promotion of Administrative Justice Act PAJA have made provision to reverse this culture and to promote an efficient, accountable and transparent Administration.

The PAJA was passed to give effect to the constitutional rights to lawful, reasonable and procedurally fair administrative action and the right to be given reasons for administrative action. Additionally, it contains provisions limiting those rights in the interests of administrative efficiency and good governance. Since coming into operation on 30 November 2000, the PAJA has become the legislative foundation of the general administrative law of South Africa.

The Public Service Commission

The Public Service Commission may, on receipt of a complaint, investigate and evaluate the application of personnel and public administration practice. The Constitution established the so-called Chapter 9 institutions, including the Auditor-General and the Office of the Public Protector. The constitution also provides for the appointment and removal of the Public Protector.

The Public Protector Act 23 of 1994

The Public Protector is a functionary to whom the public has recourse. This functionary is guaranteed independence by the Constitution. The Public Protector is required to be impartial and to exercise his or her powers and functions without fear, favour or prejudice. No person or organ of state may interfere with the Public Protector. Organs of state must protect and assist the office of the Public Protector.

The President appoints a suitably qualified person to this office, based on the recommendation of the National Assembly. The appointment is not renewable: it is for a period of seven years. The Public Protector Act provides for matters incidental to the Office of the Public Protector, as contemplated in the Constitution.

In terms of section 182 of the Constitution, the Public Protector has the power as regulated by national legislation to:

- Investigate any conduct in state affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice;

- Report on that conduct; and
- Take appropriate remedial action.

The Directorate of Special Operations

On 25 June 1999 the President announced to Parliament that a special and adequately staffed and equipped investigation unit would be established to deal with all national priority crimes, including police corruption. Three investigating directorates within the National Prosecuting Authority (NPA) were established in terms of the National Prosecuting Authority Act 32 of 1998. Their mandate covers Serious Economic Offences, Organised Crime and Public Violence, and Corruption. The National Prosecuting Authority Amendment Act (61 of 2000) consolidated the directorates into one Directorate of Special Operations (DSO), headed by a Deputy National Director of Public Prosecutions. The DSO consists of the following operational desks:

- Organised crime;
- Serious and complex financial crimes;
- Co-ordination of money laundering and racketeering
- Public integrity and corruption.

Special Investigating Units and Special Tribunals Act

The Special Investigating Units and Special Tribunals Act (74 of 1996 as Amended by Act No 2 of 2001) provides for the establishment of Special Investigating Units to investigate serious malpractices or maladministration in State institutions, State assets and public money, as well as any conduct which may seriously harm the interests of the public.

The National Intelligence Agency

The National Intelligence Agency (NIA) is mandated in the Constitution under certain conditions to pro-actively, professionally and impartially manage and provide the Government with domestic intelligence and counter-intelligence, in order to enhance national security and defend the Constitution, the interests of the State and the well-being of the people of South Africa.

The NIA is a statutory body established in terms of section 3 of the Intelligence Services Act 38 of 1994. The Act regulates the establishment, organisation and control of the National Intelligence Agency and the South African Secret Service.

National Prosecuting Authority

The National Director of Public Prosecutions is appointed by the President in terms of the National Prosecuting Authority Act 32 of 1998 and reports to Parliament.

Section 179 of the Constitution of South Africa provides for a single prosecuting authority. The prosecuting authority is the only institution with the power to institute criminal proceedings on behalf of the state. The National Director of Public Prosecutions also has the power to delegate the authority to prosecute to either private individuals and/or other public entities. Thus, all investigations of corruption cases, whether investigated by the South African Police Service or any other agency, have to be referred to the prosecuting authority for criminal prosecutions.

Despite having an array of legislative framework to regulate governance practice from a multi-dimensional perspective the public sector is still plagued with poor governance practices. A number of weaknesses were cited in the Anti-corruption Strategy Report ()

Weaknesses related to the Anti-corruption strategy:

- There are serious weaknesses and shortcomings in the capacity and will of public sector bodies to use the legislation and to comply with the laws.
- Some bodies view some of the legislation (e.g. Access to Information) as too demanding of resources
- There are overlapping mandates, which affect the law enforcement agencies and the constitutionally created bodies.
- The legislation is focused on the public sector and does not deal adequately with the private sector.

- The 1992 Corruption Act is difficult to use and ineffective. (Therefore the major legislative change required is the passing by Parliament of the Prevention of Corruption Bill, and the inclusion of certain corporate governance issues in legislation.)
- Legislation on private funding of political parties is lacking.

Hence the need for the study to determine the level to which board decision can be improved to enhance the performance of Public Entities

3.11 The Governance Environment of South African Companies

Naidoo (2009) contended that efficiency with which the governance framework in a country operates depends on how effective the legal and regulatory environment is, the level of shareholder awareness and activism which exists, and the approach of funders and institutional investors to the companies in which they invest.

Regulations exist to assist the primary legislative process. The primary legislation such as the Companies Act contains provisions which allow certain bodies established under the law to make regulations, in terms of, defined process. Regulations involve the prescripts of government agencies and regulatory bodies put in place by the state of governance of companies and the protection of investors. This could include organs such as the Competition Commission, Takeover Regulation Panel and the Securities and Exchange Commission (SEC) in the US.

Many different legislative regimes influence governance practices in South Africa. Below the legislation will be reviewed briefly, namely, the Companies Act (1973, 2008), Public Finance Management Act (1999), Listing Requirements, Insider Trading Act (1998), Promotion of Access to Information (2000), Broad-based Black Economic Empowerment (BBBEE Act, 2000) and the Codes of best practice – King Reports.

The Companies Act 73 (2008)

The Companies Act (1973, 2008) provided the legal structure in terms of which companies are created and empowered. Companies are creatures of statute, and

cannot exist unless created in terms of law and given certain powers in terms of their founding documents, either the memorandum and articles of association (1973) or the memorandum of incorporation (2008). Company law defines the manner in which companies come into existence; it defines their objects, authorities, rights and obligations as separate legal entities. Typically, legislation also lays down the minimum requirements for reporting by companies to their stakeholders, determining what, how frequently and to whom information must be provided. In addition, companies must also comply with a host of other laws that regulate, health and safety issues, competition, marketing, employment practice and tax obligations.

Listing Requirements

Securities exchange regulations such as the JSE Listings Requirements determine the requirements that companies must fulfil in order to have their shares listed on a stock exchange. The Listing Requirements regulate the conduct of listed entities and companies planning to list their shares.

The listing requirements of the Johannesburg Stock Exchange (JSE), now known as JSE Securities Exchange South Africa, were comprehensively revised, first in 1995 and again in 2000, in accordance the King Report and international best practice. A number of amendments to the South African Companies Act recommended in the first King Report have also been promulgated, *inter alia*, compelling disclosure of the identity of beneficial owners of shares held by nominees

Insider Trading Act (1998)

The Insider Trading Act was introduced in 1998, which provides for rigorous supervision and monitoring of insider trading. For the first time in South African legislation the Act extended beyond criminal sanction to embrace civil remedies.

Broad-based Black Economic Empowerment (BBBEE Act, 2000)

In 1994 the concept of BEE emerged to transform ownership and control of the economy aimed at empowering groups and individuals who had been negatively affected by the Apartheid system. The initial focus of BEE was on increasing black ownership of shares in major corporations. Progress towards achieved BEE was slow and enriched a small number of well connected politicians and business people in the context of persistent poverty. This then in 2000 resulted in the introduction of broad-based BEE (BBBEE). BEE compliance is measured by means of a scorecard (a broad based BEE scorecard). The scorecard is based on various elements and your company is measured out of a maximum of 100 points (in some cases it is possible to obtain more than 100 points).

The elements on which you are rated are what make BEE broad-based. It covers various aspects of the economy, society and the company

The seven elements

- Ownership - this measures the percentage of shares in the business that are owned by black people (as per the definition above)
- Management - the directors and top management of the business
- Employment equity - the employees in the business
- Skills development - this measures the amount of money spent of training of black employees
- Procurement - your suppliers and their scores
- Enterprise Development - your spend on helping other black owned enterprises
- Socio-Economic Development - your spend on assisting charitable organisations

Randall (1996) pointed out that an increasing number of blacks are being invited to join the boards of white enterprises as non-executive directors. Their main role is to attend periodic meetings where they have a say in determining the strategic direction of the company, but few are able to exercise a decisive influence on decisions concerning its management, investment and technology. Moreover, Randall (*ibid*) indicated that many

white board directors have had years of business experience and exposure, and most are technically and financially proficient. The board process variable, functional area knowledge is critical to an effective functioning of the board but if not present will comprise the functioning of the board.

In the same study an executive director of Sankorp, revealed that the main problem is that black directors do not have a track record, which caused inadequate levels of participation in the decision making process. The functional area knowledge present relates to a particular set experience related to black community, the understanding of the interfaces between the different political parties, different ethnic groups and between politics, the economy and society.

South Africa is in danger of moving towards 'crony capitalism'. Business is carried out by informal groupings of capitalists, often joined by family or 'crony' linkages which are often regional and international. However, what they do suggest is the fluidity, overlapping and intimacy of South Africa's new black elite, which is still relatively small, amongst whom personal and political linkages across political, state and business boundaries provide for a constant flow of exchanges and illuminate a sense of community (Southall, 2004). Boards are plagued with practises of director interlock and 'cronyism' which is likely to affect the quality of the decision-making process and the decision outcomes.

Codes of best practice – King Reports

An advantage of the proliferation of corporate governance codes around the world has been the adoption of these codes as a pre-condition to a stock exchange listing. In a revision of the JSE Listing Requirements following the release of King II, it was made mandatory for listed companies to comply with the provisions of King II or to explain, in their annual reports, the extent of and reasons for any noncompliance.

A contentious issue is whether the requirements of corporate governance codes should be mandatory, in other words, policed and enforced by penalties and other punitive

measures) or recommended only, thereby giving them the advantage of being flexible, adaptable and responsive to changing business circumstances. In contrast to King II's "comply or explain" approach which implies an element of sanction for companies that fail to comply, King III's approaches governance from the point of view that companies should apply the principles of the Code, but if they elect not to do so, they should explain their non-application to shareholders and stakeholders. King III distinguished between statutory provisions, which are mandatory, and recommended governance practices and makes it clear that it is the board's duty to override a recommended practice. This can be done if the board believes that to do so would be in the best interest of the company.

The King Code on Governance was enacted in 1994 and although one of the provisions was to have non-executive directors on board they were not required to be independent of management but compliance was voluntary. Revision of the code in 2007 reversed the provision to make non-executive directors independent (Malherbe and Segal, 2007). Still, to attain greater levels of reform in corporate governance practises in South Africa the code was further reviewed. The review culminated in the release of King 111 in 2010. King 111 is advocating for boards to include independent non-executive directors.

In 2001 the Protected Disclosures Act came into effect, protecting public- and private-sector whistle blowers who report corruption or illegal activities at their places of employment. In March 2001 the South African government signed onto the U.N. Global Programme Against Corruption, which prescribes a country assessment of corruption and anti-corruption activities

In 2002 the cabinet adopted the Public Service Anti-Corruption Strategy, which includes a review and consolidation of the legislative framework to fight corruption.

The High Court in 2005 dismissed a PAIA claim filed by the watchdog group Institute for Democracy in South Africa (IDASA) compelling the four biggest political parties—the

ANC, the Democratic Alliance, the Inkatha Freedom Party, and the New National Party—to disclose their funding sources. The court ruled that political parties are private bodies not obligated to disclose this information under the PAIA. In July 2003, representatives from eleven South African civil society organisations established the Civil Society Network against Corruption.

King 1

In 1992 the King Committee on Corporate Governance was formed in South Africa, and, in line with international thinking, considered corporate governance from a South African perspective. The result was the King Report in 1994, which marked the institutionalisation of corporate governance in South Africa. King 1 advocated an integrated approach to good governance, taking into account stakeholder interests and encouraging the practice of good financial, social, ethical and environmental practice. The King Committee has no official mandate (unlike nearly all the other similar initiatives in other countries), and thus its recommendations were self-regulatory (www.saica.co.za).

It also aimed to promote corporate governance in South Africa and established recommended standards of conduct for boards and directors of listed companies, banks, and certain state-owned enterprises, with an emphasis of companies to become a responsible part of the societies.

The corporate responsibility focus captured in the first King Report was reinforced and strengthened with the implementation of the Labour Relations Act (1995), the Basic Conditions of Employment Act (1997), the Employment Equity Act and the National Environmental Management Act (1998).

King II

To be responsive to developments in the international environment and to align the governance practice with international trends King 11 emerged in (2002). The report acknowledged a transition from single bottom line (profit for shareholders) to a triple bottom line reporting. This required companies to report on social, health, ethical,

environmental practise, human capital and black economic empowerment. The report stated:

“The company must be open to institutional activities and there must be greater emphasis on the sustainable or non-financial aspects of its performance. Boards must apply the test of fairness, accountability, responsibility and transparency to all acts or omissions and be accountable to the company but also responsive and responsible towards the company’s identified stakeholders. The correct balance between conformance with governance principles and performance in an entrepreneurial market economy must be found, but this will be specific to each company (King II Report”.

It contains a Code of Corporate Practices and Conduct. Although voluntary, the Johannesburg Securities Exchange requested listed companies to comply with the King Report recommendations or to explain their level of non-compliance. This report applied only to certain categories of business enterprises, namely, Companies listed on the JSE, Banks, financial and insurance entities and Public sector enterprises governed by the Public Finance Management Act and the Municipal Finance Management Act.

The King II Report referred to seven characteristics of good corporate governance:

Discipline - a commitment to behaviour that is universally recognised and accepted as correct and proper.

Transparency - the ease with which an outsider is able to analyse a company's actions.

Independence - the mechanisms to avoid or manage conflict.

Accountability - the existence of mechanisms to ensure accountability.

Responsibility - processes that allow for corrective action and acting responsibly towards all stakeholders.

Fairness - balancing competing interests.

Social Responsibility - being aware of and responding to social issues.

A particular emphasis in the second King Report was on the qualitative aspects of good corporate governance. King II was not designed as a regulatory instrument, but as a tool to identify core areas of good practice for boards, directors and companies, which extended beyond the existing legal and policy framework to embrace a number of aspirational principles.

King III

King III has opted for an "apply or explain" approach that more appropriately conveyed the intent of the Code. However, good governance and compliance with legislation are mutually inclusive. In contrast to its predecessors, King III applies to both public and private entities regardless of the manner and form of incorporation. The principles contained in the Code were therefore drafted so that they can be applied by every entity and in doing so achieve good governance across the entire economic spectrum in South Africa.

Sustainability and triple bottom line

According to Khosa and Adam (2005) the World Commission on Environment and Development defined sustainable development which meets the needs of present generations. In a business context the term sustainability has been adopted to mean the achievement of balanced and integrated economic, social and environmental performance – referred to as the triple bottom line (King II, 2002). In contrast, UK based organisations defined sustainability as a whole set of values, issues and processes that companies must address in order to minimise any harm resulting from their activities and to create economic, social and environmental value. Khosa et al. (*ibid*) argued that the needs of all the company's stakeholders – shareowners, customers, employees, business partners, government, local communities and the public must be considered. Below is a discussion of the three pillars of sustainability (*Khosa et al, 2005*).

Economic Performance

Economic performance does not equate with financial performance. Khosa et al. (*ibid*) argued that economic indicators should focus on the impact of the business on

stakeholders. Moreover, the economic status of the stakeholders changes as a consequence of the organisation, rather than on changes in the financial conditions of the organisation itself (Global Reporting Initiative, 2002). According to the GRI guidelines, these impacts may be direct and/or indirect

Social Performance

The terms corporate social investment (CSI), corporate social responsibility (CSR) and corporate citizenship tend to be used interchangeably. CSI makes reference to a discretionary contribution (financial or other) made for charitable purposes. However, the social aspect of the triple bottom line extends a company's CSI initiatives. For example, social indicators in the GRI's guidelines include, human right issues, labour practices including health and safety, social issues such as the impact of the company's activities on communities and product responsibility (GRI, 2002). CSR is a broader concept which acknowledges an organisation's responsibility to stakeholders that extends beyond philanthropy. CSI may be one of the outcomes of a CSR strategy. Fakir (2004) argued that corporate citizenship is an organisation's political and ideological approach – it is a process, attitudinal and relational issue. The way the company lives out its corporate citizenship depends on the values that it chooses to prioritise. Operating the business according to that system of values leads to appropriate CSR and CSI initiatives.

Environmental Performance

At the heart of sustainability is the need to preserve the environment for future generations. The adherence to the principle of sustainability not only obliges a company to cease activities that cause harm, but also requires it to minimise the impact of those activities that cannot be stopped.

One of the essential features of sustainable performance is the integration of economic, social and environmental performance. In addition, one of the features of triple bottom line performance is effective disclosure and reporting – sustainability reporting.

Increasingly, organisations will need to provide integrated accounts of their economic, social and environmental stewardship and performance.

Table 3.7 Principles of good governance

1.Leadership and ethics	
Principle 1.1	The board should provide effective leadership based on an ethical foundation
Principle 1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen
Principle 1.3	The board should ensure that the company's ethics are managed effectively
Principle 2.1	The board should act as the focal point for and custodian of corporate governance
Principle 2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable
Principle 2.3	The board should provide effective leadership based on an ethical foundation.
Principle 2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen
Principle 2.5	The board should ensure that the company's ethics are managed effectively
Principle 2.6	The board should ensure that the company has an effective and independent audit committee.
Principle 2.7	The board should be responsible for the governance of risk
Principle 2.8	The board should be responsible for information technology (IT) governance
Principle 2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards
Principle 2.10	The board should ensure that there is an effective risk-based internal audit
Principle 2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation
Principle 2.12	The board should ensure the integrity of the company's integrated report
Principle 2.13	The board should report on the effectiveness of the company's system of internal controls
Principle 2.14	The board and its directors should act in the interests of the company
Principle 2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.
Principle 2.16	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of the chairman of the board
Principle 2.17	The board should appoint the chief executive officer and establish a framework for the delegation of authority
Principle 2.18	The board should comprise a balance of power, with a majority of non-executive directors
Principle 2.19	Directors should be appointed through a formal process
Principle 2.20	The induction of and ongoing training and development of directors should be conducted through formal processes.
Principle 2.21	The board be assisted by a competent, suitably qualified and experienced company secretary
Principle 2.22	The evaluation of the board, its committees and the individual directors should be performed every year.
Principle 2.23	The board should delegate certain functions to well-structured committees but without abdicating responsibility.
Principle 2.24	A governance framework should be agreed between the group and its subsidiary Boards
Principle 2.25	Companies should remunerate directors and executive fairly and responsibly.

Principle 2.26	Companies should disclose the' remuneration of each individual director and certain senior executives.
Principles 2.27	Shareholders should approve the company's remuneration of each individual director and certain senior executives
Audit Committees	
Principle 3.1	The board should ensure that the company has an effective and independent audit committee
Principle 3.2	Audit committee members should be suitably skilled and experienced independent non-executive directors
Principle 3.3	The audit committee should be chaired by an independent non-executive director
Principle 3.4	The audit committee should oversee integrated reporting
Principle 3.5	The committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.
Principle 3.6	The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function
Principle 3.7	The audit committee should be responsible for overseeing of the internal audit
Principle 3.8	The audit committee should be an integral component of the risk management process
Principle 3.9	The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process
Principle 3.10	The audit committee should report to the board and shareholders on how it has discharged
Governance of Risk	
Principle 4.1	The board should be responsible for the governance of risk
Principle 4.2	The board should determine the levels of risk tolerance
Principle 4.3	The risk committee or audit committee should assist the board in carrying out its risk responsibilities
Principle 4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan.
Principle 4.5	The board should ensure that risk assessments are performed on a continual basis
Principle 4.6	The board should ensure that frameworks and methodologies are implemented to increase the probabilities of anticipating unpredictable risks
Principle 4.7	The board should ensure that management considers and implements appropriate risk responses.
Principle 4.8	The board should ensure continual risk monitoring by management
Principle 4.9	The board should receive assurance regarding the effectiveness of the risk management process
Principle 4.10	The board should ensure that there are processes in place enabling complete timely, relevant, accurate and accessible risk disclosure to stakeholders
IT Governance	
Principle 5.1	The board should be responsible for information technology (IT) governance
Principle 5.2	IT should be aligned with the performance and sustainability objectives of the company
Principle 5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework
Principle 5.4	The board should monitor and evaluate significant IT investments and expenditure
Principle 5.5	IT should form an integral part of the company's risk management
Principle 5.6	The board should ensure that information assets are managed effectively.
Principle 5.7	A risk committee and audit committee should assist the board in carrying out its IT responsibilities
Compliance	
Principle 6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards
Principle 6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its

	business
Principle 6.3	Compliance risk should form an integral part of the company's risk management process
Principle 6.4	The board should delegate to management the implementation of an effective compliance framework and processes
Internal Audit	
Principle 7.1	The board should ensure that there is an effective risk based internal audit
Principle 7.2	Internal audit should follow a risk based approach to its plan
Principle 7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management
Principle 7.4	The audit committee should be responsible for overseeing internal audit
Principle 7.5	Internal audit should be strategically positioned to achieve its objectives
Stakeholder Relations	
Principles 8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation
Principle 8.2	The board should delegate to management to proactively deal with stakeholder relationships
Principle 8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interest of the company
Principle 8.4	Companies should ensure the equitable treatment of shareholders
Principle 8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence
Principle 8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible
Reporting	
Principle 9.1	The board should ensure the integrity of the company's integrated report
Principle 9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting
Principle 9.3	Sustainability reporting and disclosure should be independently assured.

Table 3.7: Principles of good governance, King III Report (2009)

King III: board compositions and non-executive directors

The issuance of King III was necessitated by the new Companies Act (2008) of South Africa and changes in international governance trends. For board composition, in adhering to the principle of independence the Board should consist of a balance of executive and non-executive directors, with a majority of non-executive directors. A balance of executive and non-executive directors, with a majority of non-executive directors should exist in the Board of Directors. The King III guidelines specify that a minimum of two executive directors, the CEO and Chief Financial Officer\Director should be appointed.

Some of the main defining characteristics will be summarised below (King III Report, 2009). Firstly, King III proposes a lead independent director that serves actively in this

capacity where the chairman is absent or not able to perform his duties for whatsoever reason or where the independence of the chairman of the board is questionable or impaired.

Secondly, in accordance with international trends King III (2009) defines an independent non-executive as: (1) does not represent a controlling or major shareholder; (2) does not have a direct or indirect interest in the company; (3) has not been employed by the company in the past three financial years; (4) is not a member of the immediate family of an individual who has been employed in the past three financial years, or employed by the company in an executive capacity; (5) is not a professional advisor to the company; (6) is free from any business or other relationship with the company; (7) does not receive remuneration which is contingent upon the performance of the company.

Third, another key requirement is that the Board should be led by an independent non-executive Chairman who should not be the CEO of the company; be reappointed on an annual basis; be an independent non-executive director; the level of independence should be carefully monitored; the Chairman's ability to add value should be taken into account at the annual evaluation.

Transparency and reporting

Khosa and Adam (2005) argued that transparency is linked to accountability and is one of the essential ingredients of good governance.

The King Report (2002) defined transparency as

“ the ease with which an outsider is able to make meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to the business. This is a measure of how good management is at making necessary information available in a candid, accurate and timely manner – not only the audit data but also general reports and press releases.

- Transparency enhances accountability and inclusivity. It is through transparent practices that the accountability of organisations is enhanced.

- Transparency helps counter unethical practices. Bribery and corruption have been highlighted as common breaches of good governance practices and destroyers of value in companies.
- Transparency heightens confidence in organisations and builds trust. Disclosure of information helps boost confidence in the sustainability of an organisation by instilling trust in all stakeholders who deal with the organisation.

When management has credibility, the market will support management's actions, even when the cost of those actions, even when the cost of those actions dilutes current earnings (Khosa and Adam, 2005).

Khosa and Adam (2005) argued that traditionally, reporting and disclosure focused predominantly on financial matters. Financial reporting has evolved over time and has resulted in the development of certain policies, standards and procedures that contribute to consistent reporting. For example, organisations use Generally Accepted Accounting Principle (GAAP) or International Accounting Standards (IAS) to ensure that financial reporting enables one to compare relevant information and assess whether or not a company is doing well.

Further Khosa et al (2005) claimed that integrated reporting requires reporting on economic, social and environmental performance of the company. However, there is no standard reporting mechanism or agreed criteria that can be applied. Hence, it then becomes difficult to make comparisons across organisations. Therefore one cannot assume a common understanding of the non-financial issues and is contingent on the organisation to provide sufficient background information and explain technical terms of be understood.

There are at least two sets of guidelines to which organisations can turn to improve practices of integrated sustainability reporting. The King Report 2002 sets out guidelines with regards to best practice in relation to disclosure and reporting to stakeholders. King II stressed that each company needs to determine for itself what is

relevant for disclosure. In addition, the code propagated that certain matters may require special consideration (for example, steps taken to manage HIV and AIDS, environmental practices and human capital development).

Table 3.8 Key differences between King II and King III (Naidoo, 2009)

Area	King II	King III
Alternative dispute resolution	This is not dealt with in King II	Litigation is not always in the best interests of the company (costly, time to resolve and does not result in the best outcome).
Application of the code	Affected companies (those listed on JSE, banks, financial and insurance entities and SOEs). It is an aspirational code for the other companies	Applies to all companies, regardless of the size or structure.
Audit committee	The board should appoint an audit committee	King III largely mirrors the provisions of the Company's Act concerning the criteria for audit committee members and increased the scope of the audit committee's duties.
Performance Evaluation	Individual and board performance is done annually and does not require disclosure	Requires that companies to disclose the results of the board, board committees and directors
Board Committees	All companies should at least have audit and remunerations committees	The board should appoint audit, risk, remuneration and nomination committees. Risk and sustainability can be delegated to the audit committee
Board composition	A balance of executive and non-executive directors, preferably with a majority of non-executive directors of whom a sufficient number should be independent	The board should be made up to a majority of non-executive directors. The majority of directors should be independent

Area	King II	King III
Business rescue	This is not dealt with in King II	The board has a duty to constantly monitor the solvency and liquidity of the company and must commence business rescue proceedings as soon as it becomes aware that the company may be in financial distress.
Integrated sustainability reporting	The board is required to monitor the non-financial aspects relevant to the company	Sustainability reporting should be regular, relevant, comprehensive and clear in reporting on the positive and negative aspects of the company to provide a balanced view. Reports should be independently assured.
Chairmanship	The board should be led by an independent non-executive, chairman. Where the CEO is the chairman then select a non-executive director as deputy chairman	The board must be led by an independent non-executive director of suitable stature.
Chief Executive Director	This is not specifically dealt with in King II	Sets out a number of defined responsibilities for the CEO with regard to achieving strategy, ensuring compliance and providing ethical leadership
Compliance	Compliance with laws and regulations is dealt with as part of the board's duty to manage risk	Compliance is separated into laws and regulations which are mandatory. The board should develop an ethical culture of compliance.
Directors	Sets out some criteria to determine whether directors are executive, non-executive or independent	The independence of non-executive directors should be reassessed annually. Directors that have been in office > 9 years to be assessed rigorously for independence
Chairmanship	The board should be led by an independent non-executive, chairman. Where the CEO is the chairman then select a non-executive director as deputy chairman	The board must be led by an independent non-executive director of suitable stature.

Area	King II	King III
Chief Executive Director	This is not specifically dealt with in King II	Sets out a number of defined responsibilities for the CEO with regard to achieving strategy, ensuring compliance and providing ethical leadership
Compliance	Compliance with laws and regulations is dealt with as part of the board's duty to manage risk	Compliance is separated into laws and regulations which are mandatory. The board should develop an ethical culture of compliance.
Directors	Sets out some criteria to determine whether directors are executive, non-executive or independent	The independence of non-executive directors should be reassessed annually. Directors that have been in office > 9 years to be assessed rigorously for independence
Internal audit	The focus was on the adequacy of the internal controls. Internal audit was primarily compliance-based and if the board decides not to have an internal audit function full reasons must be disclosed in the company's financial report.	Companies should establish and maintain an effective internal control function. Internal audit has been moved from a compliance-based to a forward-looking risk based function. The scope of the audit has been increased to include business processes, internal controls, governance and ethics
IT Governance	There was no special focus on IT governance.	The responsibility for IT governance is vested with the board. The director's should ensure the integrity of the company's information and IT systems.
Remuneration approval and disclosure	Requires companies to seek prior approval of non-executive director's remuneration from shareholders in general meeting and to disclose the remuneration and benefits paid to non-executive directors in their annual reports	Companies to seek shareholder approval of their remuneration policies. Non-executive directors' remuneration should be approved by a special resolution of shareholders in general meeting. The remuneration packages of the three highly paid executives must be disclosed in the integrated reports.
Risk management and risk governance	The board should identify key risk areas and key performance indicators for the business	The board is responsible for risk governance while management is responsible for risk management. The board is therefore responsible for the overall efficacy of risk management, although management remains

Area	King II	King III
		responsible for implementation.
Stakeholder relations	The board should take account of stakeholder interests in its decision making.	The board must play a key role in identifying the company's stakeholders and must engage with them on an ongoing basis to ensure that their legitimate expectations are met.
Standards of compliance	All affected entities are required to comply with the prescripts of the Code or explain the areas of non-compliance	Companies are required to apply the principles of the Code or explain why their boards have made an informed decision not to do so.

Table 3.8: Source - Corporate Governance: An essential guide for South African Companies (Naidoo, 2009)

3.12 International Corporate Governance Frameworks and Protocols

OECD Principles of Corporate Governance

The importance of an appropriate legislative and policy framework that provides the basis for effective corporate governance cannot be underestimated. The OECD Principles of Governance is there to ensure an effective corporate governance framework. Moreover, it is necessary that an appropriate and effective legal, regulatory and institutional foundation is established upon which all market participants can rely on in establishing their private contractual obligations. The corporate governance framework typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practice that are the result of a country's specific circumstances, history and tradition. The desirable mix between legislation, regulation, self-regulation, voluntary standards and business practices from country to country.

International code: The GRI Guidelines

The GRI guidelines provide more specific guidance than the King Report 2002 and serve as an excellent tool to assist organisations with appropriate disclosure and reporting practices. The guidelines promote effective sustainability reporting to facilitate the consistency and comparability of sustainability reports. It is observed in the guidelines,

“effective corporate governance depends on access to relevant, high quality information that enables performance tracking and invites new forms of stakeholders engagement” (GRI, 2002).

Adherence to the GRI Guidelines will help companies develop reports on their economic, social and environmental performance that are balanced, credible and comparable.

Table 3.9 Key aspects of GRI Guidelines

Key aspects of the GRI Guidelines

GRI Reporting Principles

The GRI guidelines (GRI, 2002) cite four clusters of reporting principles:

Framework for the report

- Transparency: full disclosure of the processes, procedures and assumptions
- Inclusiveness: engage stakeholders
- Auditability: information is disclosed in a way that makes it possible for assurance providers to attest to its reliability

Informing decisions about what to report

- Completeness: all information that is material should be included
- Relevance: the degree of importance and threshold at which information becomes significant enough
- Sustainability context: locate performance and its impact in the broader context

Quality and reliability

- Accuracy: striving for exactness
- Neutrality: reports should be balanced and unbiased
- Comparability: maintaining consistency in order to compare performance

Informing decisions about access to the report

- Clarity: clear, understandable and sufficient information
- Timeliness: keeping a regular and predictable reporting schedule

GRI report content

Part C of the guideline sets out the information that should be included in a sustainability report.

- Vision and strategy
- Profile
- Governance structure and management systems
- GRI content index
- Performance indicators

Table 3.9 Source: *The Power of Governance: Enhancing the Performance of State-owned Enterprises (Khosa and Adam, 2005)*

The International Corporate Governance Network

The International Corporate Governance Network (ICGN) is an umbrella organisation comprising a number of large institutional investors. The investment criteria are modelled on the Organisation for Economic Co-operation and Development (OECD) recommendation. In evaluating investments ICGN assesses financial criteria but more importantly the governance of the corporation is an essential factor that investors take into consideration when deciding how to allocate their investment capital.

The Corruption Perception Index

The Corruption Perceptions Index is regarded as the world's most credible measure of domestic, public sector corruption. In terms of the research problem South Africa's rating in the Corruption Perceptions Index for 2012 was 43 and slipped to position 69

amongst 176 countries (Corruption Perception Index, 2013). This rating ranks countries and territories based on how corrupt their public sector is perceived to be. A rating a country or territory's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean

South Africa is an emerging market where there are major agency and information problems; major sources of potential benefits of group affiliated firms are access to foreign capital, access to latest technology, and some control over political groups.

3.13 Governance practices and its impact on global ratings

Effective corporate governance of boards can become a sustainable competitive advantage for organisations. Singh and Msweli (2012) argued that poor governance practises across all sectors has negatively tainted economic investments in South Africa consequentially affecting economic growth. Below South Africa's competitive rating (53rd) and the corruption index (69th) rating is given to show marked improvement is needed in corporate governance.

Global Competitiveness

The Global Competitiveness Report (2013 – 2014) features a record number of 144 economies, and is the most comprehensive assessment of its kind. The competitiveness analysis is based on the Global Competitiveness Index (GCI), a highly comprehensive index for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness.

Competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country.

South Africa is ranked 53rd this year, remaining the highest-ranked country in sub-Saharan Africa and overtaking Brazil to place second among the BRICS in the Global Competitiveness Rating Report (Schwab, 2014). Ratings in relations to dimensions

that are ranked and rated in relation to participating countries are discussed in detail below.

South Africa does well on measures of the quality of its institutions (41st), including intellectual property protection (18th), property rights (20th), and in the efficiency of the legal framework in challenging and settling disputes (13th and 12th, respectively). The country benefits from the large size of its economy, particularly by regional standards (it ranks 25th in the market size pillar).

The high accountability of its private institutions (2nd) further supports the institutional framework. Furthermore, South Africa's financial market development remains impressive at 3rd place. The country also has an efficient market for goods and services (28th), and it does reasonably well in more complex areas such as business sophistication (35th) and innovation (39th). But the country's strong ties to advanced economies, notably the euro area, make it more vulnerable to their economic slowdown and likely have contributed to the deterioration of fiscal indicators: its performance in the macroeconomic environment has dropped sharply (from 69th to 95th). Low scores for the diversion of public funds (99th), the perceived wastefulness of government spending (79th), and a more general lack of public trust in politicians (98th) remain worrisome, and security continues to be a major area of concern for doing business (at 109th). Building a skilled labour force and creating sufficient employment also present considerable challenges. The health of the workforce is ranked 133rd out of 148 economies—the result of high rates of communicable diseases and poor health indicators more generally. The quality of the educational system is very poor (146th), with low primary and tertiary enrolment rates. Labour market efficiency is poor (116th), hiring and firing practices are extremely rigid (147th), companies cannot set wages flexibly (144th), and significant tensions in labor-employer relations exist (148th). Raising educational standards and making the labor market more efficient will thus be critical in view of the country's high unemployment rate of over 20 percent, with the rate of youth unemployment estimated at close to 50 percent.

3.14 The Public Sector South Africa: Schedule 1, 2 and 3

Khosa and Adam (2005) contended that public entities, and in particular, state-owned are often large employers that operate on a heavily subsidised basis that creates little long-term value. Furthermore, Khosa *et al.* (*ibid*) public entities are often over-staffed, inefficient and prone to corruption and nepotism. Within the South Africa context, state-owned enterprises play a pivotal role in the transformation of society to remove the distortions created by the apartheid system.

3.15 Board Failure

Martinelli, (1998) provided a number of reasons to explain why some boards do not function effectively. These factors can actually be used as a checklist for assessing and helping boards to identify problem areas. The reasons for board failure pertain to micromanaging of the organisation, an ineffective nominating committee, size of the board, non-functioning committee structure, and absence of strategic plan, no orientation\induction plan and no rotational plan. Other reasons for board failure related to poor corporate governance practice and oversight. Below is a timeline of corporate governance practise in South Africa over an eleven year period.

In 1999 the South African Local Government Association unearthed millions of rands worth of rampant fraud and corruption in the administration of more than 30 local government pension funds with an asset base of R30 billion.

In 1999, the Commissioner, Khulekani Sithole of Correctional Services misappropriated government funds and there were instances of conflict of interest.

In 2000, Finance Director Nico Krugel of the Mpumalanga Parks Board (MPB) is sentenced to 10 years in prison for his role in a scheme involving the funnelling of funds from MPB coffers to the ANC and various politicians. Also implicated in the scandal are MPB chief executive Alan Gray, former MPB accountant Maxi Green, and ANC Youth League Secretary James Nkambule and ANC Youth League organizer Alfred

Thumbathi.

In 2000, the Strategic Fuel Fund (SFF) Board, Mineral and Energy Affairs Minister Phumzile Mlambo-Ngcuka uncover a secret deal where the country's oil trading operations was sold without the government's knowledge. Several officials involved admit they accepted bribes. Mlambo-Ngcuka fires the entire SFF board and repudiates the deal.

In 2000, the Auditor General finds irregularities in the arms deal. The Mail and Guardian confirms that British arms manufacturer BAE Systems paid millions in secret commissions to win a contract to supply Hawk jets to South Africa.

In 2001, Tony Yengeni, ANC chief whip and former chair of the defense committee, received a substantial discount on a Mercedes Benz from an arms deal bidder. In October, he is arrested and resigns from Parliament. In March 2003, he receives a four-year sentence for defrauding Parliament. The Star publishes a list of 33 cars supplied at a discount by the European Aeronautic Defence and Space Company to prominent defense committee officials.

In 2001, Minister of Defense, Joe Modise's luxury home was being built by Denel, a state-owned arms manufacturer. After he left Parliament in June 1999, Modise became chairman of Conlog holdings, which had an indirect stake in the arms deal.

In 2001, Judge Thabani Jali leads a commission to investigate wrongdoing in the country's prison system. The Jali commission is soon inundated with allegations of corruption and maladministration in prisons throughout the country.

In July 2002, Andile Nkuhlu, a chief director of the Department of Public Enterprises, is suspended and later resigns following allegations he received payments from a company that won a state forestry contract.

In January 2003, Interim Management Team (IMT) investigates Eastern Cape Province governmental inefficiency and corruption in the scandal-plagued region. The IMT exposed hundreds of cases of corruption, many of which result in criminal convictions.

In February 2003, the "Scorpions" arrested former Western Cape Premier Peter Marais and former Deputy Minister David Malatsi on corruption charges. They were charged with accepting kickbacks from the developer of a golf resort.

In July 2003, a preliminary investigation uncovers widespread fraud in magistrate courts. President Mbeki signs a proclamation authorizing a high-level investigation of senior magistrates, prosecutors, court clerks and national and regional department of justice offices.

In July 2005, forty current and former members of Parliament are charged in the "Travelgate" affair, which involves the misuse of government travel vouchers. Over the following months, several MPs reach plea agreements that involve punishments of fines and imprisonment.

In July 2005, Shabier Shaikh is convicted and charged with corruption arising from dealings with foreign companies in the arm deal.

In July 2006, the Department of Social Development uncovers more than 400 000 private individuals earning salaries received social grants. The investigation has already resulted in the conviction of about 650 government employees and savings to the social development department of roughly R2 billion (US\$270,716,587).

In 2007, a full investigation by the Department of Labour, showed mismanagement of SETA Funds. The former CEO of the **Mining SETA**, Menzi Mthwecu was accused of Violating the organisation's internal procedures when authorising payments for projects. The **Whole and Retail SETA** was embroiled in a travel scam involving more

than R400 000, in which officials allegedly booked weekend getaway flights to Durban and Cape Town for themselves and their friends. The **Construction SETA**, officials were being investigated by the Scorpions in relation to irregular payments amounting to R47-million to contractors. For the **Media, Advertising, Publishing, Printing and Packaging SETA**, the CEO and financial director were Arrested and jailed for 20 years for corruption and fraud amounting to R3 million. The **Tourism and Hospitality SETA** was investigated for fraud involving R13 million. The **Agriculture SETA** also indulged in fraud activity in that companies linked to board members were given contracts worth million without following any procurement procedures. The **Chemical Industries SETA** is also responsible for misappropriation of over R100-million budgeted for the Seta's discretionary grants. The **Transport SETA** suffered losses amounting to over R245-million as a result of its dealings with the troubled asset management company, Fidentia. In 2007, CEO of South African Airways, Khaya Ngqula without board authorisation issued bonuses of R27 million to executives.

In 2008, Land Affairs Minister Lulu Xingwana dismissed for making several large suspect payments were allegedly.

In 2009, Dali Mpfu (CEO) of SABC was implicated in an Auditor-General's report for "lack of leadership oversight" and "contraventions of policy and/or alleged mismanagement of funds".

In 2009, Carte Blanche broadcasted a series of programmes exposing widespread corruption, fraud, negligence, incompetence and nepotism within the Tshwane Metro Police Services.

In 2009, The Mpumalanga Health Department's budget for HIV/AIDS of over R6 million destined for the care of the sick and the dying had been squandered on plays, soccer matches, and prayer days.

In May 2011, a report was leaked to Carte Blanche and the Department of Energy for practices of corruption, nepotism and wasteful expenditure in PetroSA. The CEO, Siphon Mkhize and CFO, Nkomsentu Nika was charged with tender irregularities. Further Siphon Mkhize had shares in companies that were awarded business by PetroSA.

In October 2011, CEO of Cricket South Africa was charged with pocketing several million rand in unscheduled and unauthorised bonuses during his tenure. An amount of R1.3 million was paid following South Africa's hosting of the Indian Premier League in 2009 (Mail & Guardian, January 2012)

In July 2004, the Auditor General, (Makwetu, 2014) reported that less than 10% of the country's 340 municipalities and their entities obtained clean audits in the 2012-13 financial year. Local government consists of eight metropolitan municipalities, 44 district municipalities and 226 local municipalities (totalling 278) as well as 62 municipal entities. In the 2012-13 financial year all municipalities and 41 municipal entities were audited.

The 30 clean audits in the 2012-13 financial year represented 22 municipalities and eight municipal entities. The results marked an improvement from the 2011-12 financial year when only 13 achieved clean audits.

The clean audits target set by government in 2009 was missed by just more than 90%. At least 67 municipalities received adverse opinions. Municipalities and municipal entities had a total expenditure of R268bn in the 2012-13 financial year. About 23% of the expenses covered salaries — including those of councillors — 62% was for goods and services and the remaining 15% was spent on maintenance and infrastructure development. The levels of unauthorised, irregular and wasteful expenditure remained high — R9bn of it was unauthorised expenditure, R11bn irregular expenditure and R815m fruitless and wasteful expenditure.

The State of Corruption and the Cost: A review from 2001 - 2010

Year	Number of cases	Amount of wasteful and Fruitless expenditure	Cash recovered
2011/12	1243	R229.9-million	
2010/11	1035	R932.3-million	
2009/10	1135	R346 529 568.20	R44 384 029.72, or 12.8 percent
2008/09	1024	R100 111 076.82	R9 946 013.83, or 9.9 percent
2007/08:	868	R 21 776 948.93	R 8 805 596.00, or 40 percent
2006/07	1042	R130 615 994.82	R20 838 681.74, or 16 percent
2005/06		R45 649 391.00	
2004/05		R120 497,731.02	
2003/04		R20 351 101.88	
2002/03		R331 213 430.16	
2001/02		R4 176 757.20	

Table 3.10: The real cost of corruption Louw (2013). Corruption watch

Louw (2013) presented a trend analysis of the levels of corruption and the costs thereof. Moreover, in 2009/10, there was unauthorised expenditure among six national government departments amounting to R802-million. In addition, there was also irregular expenditure in 34 national government departments amounting to R2.3-billion, and fruitless and wasteful expenditure in 28 departments amounting to R1.6-billion

Another alarming trend is that reports generated by the Public Service Commission underestimates the costs of corruption. Studies generated by the Institute for Security Studies (1996), the Mail and Guardian (1997) and Casac (2006).

Many studies show the extent to which funds that should have been spent on the country's poor are misused. A study on Corruption and Social Grants conducted by the Institute for Security Studies (ISS) revealed that in 1996 about R1.5-billion a year was

lost through corruption and maladministration in the delivery of social grants. At the time this amounted to 10 percent of the annual welfare budget of R11-billion (Casac, 1996).

A study by the Mail and Guardian in February 1997 reported that R1-billion was being lost to pension fraud a year. The social security budget at the time was R14.3-billion. In 1999, the Department of Social Development estimated that it was losing close to 10 percent of its R20-billion budget to social grant fraud.

Casac reported that the former minister of social development, Zola Skweyiya, stated that about R15-billion which had been allocated to pensions, social grants and other means of poverty alleviation was lost to corruption between 1994 and 2004.

A more recent study by the Institute for Security Studies showed R1.4-billion was lost to fraud in 2006 out of a total social security budget at the time of R57-billion. The Minister of Human Settlements Tokyo Sexwale identified 20 problematic housing projects worth R2-billion. Furthermore, 1570 arrests and 1189 convictions were made as a result of the abuse of the low-income housing subsidy scheme

3.16 Board Functioning

Above, the management of board structure was delineated to show the separation of control and ownership and the roles of the principals and agents (Agency Theory).

The dominant theoretical position in the foregoing argument contends that board structure is inextricably linked to improved corporate governance and board performance. From a meta-analysis study (Dalton and Daily, 1999) debated that despite a myriad of studies over several decades to explore the relationship between board structure and company performance the results have reveal an inconclusive, contradictory and inconclusive relationship between the two variables. A meta-analysis of 159 research studies over a forty year period found that there is no evidence of a substantive relationship between board structure and financial performance with due consideration of intervening variables like type of performance measures, size of firm and board structure. Dalton and Daily (1999) and Johnson, Daily and Ellstrand (1996) concurred and queried the conceptualisation of a relationship between board structure

and firm performance. They argued that while board independence is a legitimate concern, it is not the only concern (Dalton and Daily, 1999). Further they argued that a number of intervening variables also influence and affect the performance of the board and consequentially the performance of the organisation. Alternatively, in a board with a majority of inside directors, the directors may fail in its control and monitoring roles. Hence, it can be concluded that board structure, in the form of independence is a consideration but is not the only consideration in improving corporate governance and board performance.

Conforth (2001) contributed to a more nuanced understanding of corporate governance by arguing that there are many factors that influence board performance and these can be grouped in a simple monitoring frame that includes inputs, board structure and processes and outputs as can be seen in Figure 3.2.

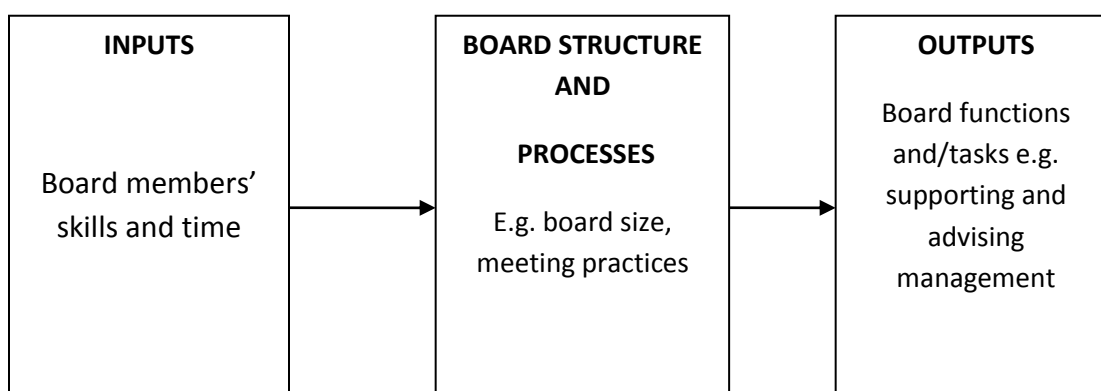


Figure 3.2 Source: Adapted - A fully integrated model of Influences on board performance by Cornforth (2001)

The two main inputs of the board are their skills and time, referred to effort norms in the extant literature (Forbes and Milliken, 1999). Effort norms can be measured by using a 6-item measure with a Likert scale ranging from 1, a low rating, to 5, a high rating. The Effort Norms scale developed by (Wageman, 1995) has six items, namely, carefully

scrutinizing the information provided by the firm prior to the meetings, researching issues relevant to the company, taking notes during the meetings, and participating actively during meetings. To measure skills (functional area knowledge), Forbes and Milliken (1999) suggested a 23-item instrument with a Likert-type scale used to measure the extent of the presence of functional area knowledge on a board and the importance of the expertise to the firm's success. The items of functional area knowledge included expertise such as Accounting, Corporate governance, Finance and Labour relations. The aforementioned inputs are then transformed into outputs through the board structure and processes. Board processes refer mainly to the decision-making activities of directors of companies (Zahra and Pearce, 1989; Forbes and Milliken, 1999; Jehn and Mannix, 2001; Spetzler, Arnold and Lang, 2005 and Scarborough, Haynie and Shook, 2010). These processes include the board size membership, the existence of other sub committees, the frequency of meetings, clarity of board roles and the extent to which a common vision for the organisation exists. Scarborough, Haynie and Shook (2010) added cognitive conflict, information quality and functional area knowledge to the list of board process variables.

Information quality relates to the board's ability to provide meaningful oversight and useful advice which is determined by the quality, timeliness and credibility of the information provided (Thomas, Schrage, Bellin and Marcotte, 2009). Information quality is measured by a 8 item measure, information accessibility, relevance, sufficiency, concise, objective, timely, understandable and value-add. Whereas **cognitive conflict** being the disagreement about the content of the tasks being performed, including differences in viewpoints, ideas and opinions (Jehn, 1995 and McNulty and Peck, 2010). The process variable, cognitive conflict is measured using a 9 item measurement scale, (1) ample opportunity to constructively challenge and debate decision brought to the board (2) culture within the board room encourages board members to express their disagreements and concerns (3) deliberations are based upon a healthy discussion of facts (4) reach collectively shared decisions following a full and frank debate (5) ample opportunity to influence the decisions made by the board (6)

personality clashes among directors, (7) relationships are defined as win-lose best described as "win-lose"

Cornforth (2001) also further contended that these processes and structures should be building on each other and reinforces one another. They also lay the groundwork for board effectiveness. In addition, Cornforth (2001) argued that board effectiveness is achieved through, namely, having a clear understanding of the roles and responsibilities, the right mix of skills and experience, time, and a common vision that is shared between management and the board and periodic review of the board.

3.17 Measures for the board

Process variables (effort norms, knowledge\skills, independence, cognitive conflict, information quality and cohesiveness) have been measured differentially in the extant literature. A number of scholars have contributed to the development of measurement tools for the process variables (Forbes and Milliken, 1999; McGrath, MacMillan, and Venkataraman (1995); Shanley and Langfred (1998); (Daily and Dalton, 1995); Fisher, Craig, Eitel Lauria, Shobha Chengalur-Smith, and Richard Y. Wang, 2006; Scarborough, Haynie and Shook).

Table 3.10 below provides a summary of the measurement tools that were adapted for the study on board decision quality.

Variables	Measurement Tool	Author, Study
Develop measure for board quality		Gap in the literature
Identify the strength and direction of the relationship between board quality and board activism	23-item measure of board activism using a five-point Likert-type scale	Scarborough, Haynie & Shook (2010)

Functional area knowledge	<p>23-item measure using a Likert-type to measure the extent to which functional area knowledge are present on a board</p> <p>Assessment of firm-specific knowledge and skills, measure the degree to which the board understands cause effect relationships involving the needs of customers, sources of risk to the firm, and impediments to output quality.</p>	<p>Scarborough, Haynie & Shook (2010)</p> <p>Forbes & Milliken (1999)</p> <p>McGrath, MacMillan, and Venkataraman (1995)</p>
Effort Norms	<p>The survey consisted of a 6-item measure using a rating, some of the measures are carefully scrutinizing the information provided by the firm prior to the meetings, researching issues relevant to the company, taking notes during the meetings, and participating actively during meetings</p>	<p>Scarborough, Haynie & Shook (2010)</p>
Cognitive Conflict	<p>Indicators of group cohesiveness. Examples of these statements identify the extent to which (1) the board obtains feedback from the directors for decision-making; (2) the board gets help from the directors for decision-making and (3) co-operativeness of directors is present. These measurements can be on a 5-point Likert scale from "Very low" to "Very high". Greater scores hence represent higher level of cohesiveness.</p>	<p>Shanley and Langfred (1998)</p>

Table 3.11: Measures for board process variables

Board activism

To measure the variable board activism a 23-item survey was used with a five-point Likert-type scale ranging from 1, a low rating to 5 a high rating, which reported the degree that the secretary agreed that the board was active in activities such as attend

board meetings, direct internal audit activities and regulatory compliance (Scarborough, Haynie and Shook, 2010).

Functional area knowledge

Forbes and Milliken (1999) suggested a 23-item measure using a Likert-type scale ranging from 1, a low rating, to 5, a high rating used to measure the extent to which functional area knowledge are present on a board. The items of functional area knowledge included expertise such as Accounting, Corporate governance, Finance, and Labour relations. Also, Forbes and Milliken (1999) suggested respondents rate and weight the importance of individual domains so that important domains more heavily weighted than less important domains. Thus, directors' functional area knowledge was weighted based on the indicated importance of the directors' functional expertise. A composite score comprised of the weighted average was used in the analysis.

In assessing firm-specific knowledge and skills, respondents could rate the comprehension levels of executive teams using the measure developed by McGrath, MacMillan, and Venkataraman (1995). Specifically, researchers could ask respondents to assess the degree to which the board understands cause effect relationships involving the needs of customers, sources of risk to the firm, and impediments to output quality.

Independence

In the extant literature most empirical studies to measure the level of independence used the proportion of outside directors to inside directors (Daily and Dalton 1995). Johnson, Daily and Ellstrand (1996), suggested using the SEC guidelines for determining director independence. The data source for this measure was archival data from the proxy materials of the companies surveyed.

Duality

To measure duality previous studies had a close ended measure and required the company secretaries if the CEO also serves as the board chair. Then, dummy codes were created where 1 was Yes and 0 was No.

Effort norms

Forbes and Milliken (1999) suggested effort norms be measured using a six item measure developed by Wageman's (1995) using a Likert type scale ranging from 1, a low rating, to 5, a high rating. The measures included a number of variables such as carefully scrutinizing the information provided by the firm prior to the meetings, researching issues relevant to the company, taking notes during the meetings, and participating actively during meetings". The directors' effort norms were treated as an additive measure of the board's expectations regarding the level of effort of the board as perceived by the corporate secretary. The Cronbach's alpha was .90.

To measure **effort norms** researchers may assess the knowledge and skills present on the board by asking board members to assess, using a Likert-type scale, the degree to which both types of expertise are present on the board. The scale used to assess the presence of functional area knowledge and skills might include items intended to gauge the presence of knowledge in domains that are common to virtually all businesses, such as finance, accounting, marketing, and law. These items could then be summed to obtain a composite score. Alternatively, because some functional areas are liable to vary in importance across industries, researchers may want to ask respondents to rate the importance of various functional areas to their businesses and use an additive measure that weights more important areas more strongly.

Information Quality

The board's ability to provide meaningful oversight and useful advice is determined by the quality, adequacy, sufficiency, reliability; timeliness, accessibility and credibility of the information it has. These variables were measured using a 5-point Likert scale from "Very low" to "Very high". Greater scores hence represent higher level of information quality.

Cohesiveness

In the extant literature Shanley and Langfred (1998) provided indicators of group cohesiveness. Examples of these statements identify the extent to which (1) the board obtains feedback from the directors for decision-making; (2) the board gets help from the directors for decision-making and (3) co-operativeness of directors is present. A 5-point Likert type scale from "Very low" to "Very high" can be used to measure the degree of cohesiveness.

3.18 Financial Measures and non-financial measures of Performance

Ammer, Ramli & Zakaria (2010) research design entailed assembled data on boards and profiles of directors from the annual reports of listed non-financial firms. The final data consist of observations concerning firm-boards and directors. Besides information about the boards, financial data was used to develop performance measures using Thomson Worldscope. The sample was composed of firms from 2002 to 2007. The frequency of all variables was annual, and the values are measured at the end of each fiscal year

Board composition was segregated according to director types to get percentages of insider, non-independent and independent directors and then, using these percentages, a board typology was developed.

Following common practice in the literature a Tobin_ Q ratio as a measure of firm performance was, defined as the sum of the market value of common equity and total debt divided by total assets. Besides board composition, firm performance also depends on other factors, such as profitability, access to capital markets, age, size, as well as industry environment. Return on assets was used as a proxy measure for a firm's profitability, denoted by PROF, which is defined as the ratio of earnings before interest, tax, depreciation and amortisation to total assets. Debt ratio, denoted by DA, was defined as the total long-term debt to total assets ratio; whereas BSIZE is the total size of the board; whilst AGE, is the log of the years for which a firm has been in operation; and SIZE is the log of the total sales.

There are multiple assessment criteria for evaluating performance, whether extrinsic or intrinsic. Still another perspective, performance can be measured by the three “Es” (Economy, Effectiveness and Efficiency) of management. Efficiency is defined as the optimisation of quantity and quality of goods and services produced in relation to the resources used in producing them. Economy means good quality inputs at good costs, effectiveness means how far the expected organisational goals are being achieved and efficiency means the optimisation of quality and quantity of goods and services produced in relation to the resources used in producing them. Eruteyan (2008) too claimed that a manager’s performance is the total of economy, efficiency and effectiveness in the procurement and use of organisational resources to achieve organisational goals and objectives.

Zahra and Pearce (1989) suggested that the use of varied measures may also account for some of the observed variation on the monitoring-performance relationship. Zahra *et al. (ibid)* observed and agreed that other authors have criticised the use of accounting measures to measure performance because they are too easily manipulated by managers (Cochran and Wood, 1984). Moreover, earnings per share and return on investment are not considered reliable indicators of economic value (Branch and Cole, 1983). Still another deduction was that in assessing the influence of board composition on financial performance there could be differential effects across the different measures of financial performance.

In the extant literature the performance indices used in capturing company performance was return on assets (ROA), return on equity (ROE), return on sales (ROS), profit margin (PM), earnings per share (EPS), market to book value (MTB), including Tobin’s Q.

According to Ittner, Larcker and Rajan (1997) accounting based measures reflected historical performance patterns of historical data measures and therefore, encouraged

managers to engage in short-term backward looking actions. On the other hand, market measures capture investor expectations of future performance and hence forces managers to consider the implications of their current actions on future cash flows. Measuring organisational performance is typically undertaken through the use of ratios. Profitability ratios measure the profit earned by the company.

Return on Equity (ROE) was used in a study by Richard and Johnson (2001) in a study on strategic human resource management effectiveness and firm performance. According to Garrison and Noreen (1997) managers have both financing and operating responsibilities. Financing responsibilities relate to how one obtains the funds needed to acquire the assets in an organisation. Operating responsibilities relate to how one uses the assets once they have been acquired. The proper management of both responsibilities is vital to a well-managed organisation.

Net profit is computed as net income divided by net sales

Internal rate of return

The internal rate of return (IRR) is the rate of discount at which future cash flows must be discounted in order to have their net present value equal the value of the cash flows on the investment. The use of the IRR method is popular in practice, presumably because it gives a percentage which can be directly applied to the decision.

$$\text{Internal rate of return} = \frac{\text{Investment required}}{\text{Net annual cash inflow}}$$

Return on assets

Return on assets (ROA) provides a measure of effective utilisation of the company's assets used to generate profit. Return on Assets gives an indication of overall efficiency of operations and is measured by profit before interest and tax divided by total operating assets.

$$\text{Return on assets} = \frac{\text{PBIT}}{\text{Total operating assets}}$$

Return on Equity

Return on Equity (ROE) indicates the return on shareholders' investment and is not only concerned with the operations of the undertaking, but with all aspects including the financing policies and the tax management. This is calculated taking profit after tax (PAT) divided by shareholders funds.

$$\text{Return on Equity} = \frac{\text{PAT}}{\text{Shareholder funds}}$$

- Profitability ratio
- Earnings per share
- SHARPE Index

3.19 Chapter Summary

The literature review confirmed that a lot of research has been undertaken worldwide on governance. (Berle and Means, 1932; Pfeffer, 1972; Jensen & Meckling, 1976; Vance, 1978; Fama and Jensen, 1983; Baysinger and Butler, 1985; Hermalin & Weisbach, 1988; Eisenhardt, 1989; Dalton and Rechner, 1989 Cadbury committee, 1992; Vance, 1995; Hart, 1995; Shleifer and Vishny, 1996; Agrawal and Knoeber, 1996;. Johnson, Daily and Ellstrand, 1996; Daily and Johnson, 1997; Otobo, 2000; Oman, 2001; Shleifer and Vishny, 2003; Dennis and McConnell, 2003; OECD, 2004; Solomon and Solomon, 2004; Perry and Shivdasani, 2005; Robert, McNulty and Stiles, 2005; McIntyre, Murphy and Mitchell, 2007; Naidoo, 2009; Abdullah and Valentine, 2009).

The literature looked at various theories: identified key theories that underpin governance thinking, namely, **Agency Theory** (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983; Baysinger and Butler, 1985; Eisenhardt, 1989; Vance, 1978; Daily and Johnson, 1997; Dalton and Rechner, 1989; Eisenhardt, 1989; Donaldson and Davis, 1991; Kesner and Dalton, 1986; Vance, 1995; Hart, 1995; Shleifer and Vishney, 1997; Dennis and McConnell, 2003; Robert, McNulty and Stiles, 2005; McIntyre, Murphy & Mitchell, 2007; Choi, Park and Yoo, 2007), **the policy model** (Carver and Carver, 1996a; Carver, 2001), **resource dependency** (Erakovic and Goel, 2008; Hillman, Canella and Paetzold, 2000; Carpenter and Westphal, 2001; Johnson, Daily and Ellstrand, 1996; Boeker and Goodstein 1991; Boyd 1990; Stearns and Mizruchi, 1993; Pfeffer and Salancik, 1978), **stakeholder theory** (Abdullah and Valentine, 2009; Esser and Dekker, 2008; Donaldson and Preston, 1995; Donaldson, 1990a & 1990b; Barney, 1990; Rechner and Dalton, 1988; Zahra and Pearce, 1989), **resource-based view** (Carney 2005; Carter & Lorsch 2004; Castanias and Helfat 2001; Barney, 1991; Zahra and Pearce, 1989; Gadhoun 1998)

In addition, there was also a delineation of the variables that influences governance practices, namely: **board structure** (Ammer, Ramli and Zakaria, 2010; Scarborough, Haynie, and Shook, 2010; Dey and Chauhan, 2009; McIntyre, Murphy and Mitchell, 2007; Choi, Park and Yoo, 2007; Fama and Jensen, 1983; Cadbury, 1992; Dey, 1994; Orser, 2000). Most of the focus has been on dimensions of board structure, identifying a stable set of explanatory variables which explain the major reasons for the different growth rates of firms, the resources, types of innovation and performance of the board and organisation.

Governance regimes in South Africa (King III, 2009; Public Finance Management Act, 1999, The Insider Trading Act, 1998; JSE Securities Exchange South Africa Listing Requirements, 1995; The Company's Act, 1973, 2008; Protected Disclosures Act, 2001; Public Service Anti-Corruption Strategy, 2002; Broad-based Black Economic Empowerment , 1994) to encourage a climate and culture of accountability.

In the African context most focus has been on the causes of informality and the constraints that micro and small firms face rather than growth (Mead and Liedholm, 1998, MacPherson 1996, King and McGrath 1999, Okech 2005, Tushabomwe – Kazooba 2006, Daniels 2003, Temtime and Pansiri, 2006, Behar, 2006). Focus on government regulations, access to finance and lack of managerial skills as the key determinants of high mortality of micro and small enterprises. There has been limited specific focus on the growth of small enterprises into medium enterprises. Only Mead and Liedholm, 1998, looked at growth from a national aggregate perspective – out of the total national population how many small enterprises have grown.

In South Africa the research and international bulk of the literature focus on board structure as a mechanism to improve governance, board performance and some studies have looked at the relationship between board structure and company performance. Some attention has been shown to look beyond board structure at board process variables (Scarborough, Haynie and Shook, 2010, Maharaj, 2007; Sonnefeld, 2002; Forbes & Milliken, 1999; Wan and Ong, 2001; Conforth, 2001). In this regard a number of variables have been studied, namely, effort norms, cognitive conflict and use of skills\knowledge. These variables are considered to be intervening or moderating variables that can lead to board performance and consequentially company performance. Scarborough, Haynie and Shook (2010) looked at the relationship between process variables and board activism. The process variables again are seen as intervening or moderating variable to increase board activism and consequentially board performance.

This research will follow this line of inquiry. The problem statement, research questions and the hypothesis have been derived directly from this literature review.

CHAPTER 4: RESEARCH METHODOLOGY – PHASE 1 & PHASE 2

4.1 Introduction

After identifying the initial gaps in the literature around board process variables and board decision quality, a qualitative study was conducted to explore board process variables that impact board decision quality. The study focused on the decision process and unravelled the moderating variables that influence the quality of decision outcomes. The results of this research phase led to a quantitative study that sought to determine the measures of board decision quality. In addition to board decision processes, particular attention was paid to decision quality and board members' decision commitment (effort norms) and how these vary with understanding and conflict (cognitive conflict) in the processing of information (information quality).

As mentioned in chapter one, this study seeks to address two research questions: (1) What processes do public entity boards follow in making good quality decisions? How are board processes linked to board decision quality? To address the research questions, a mixed research approach was selected for the study. The phenomenological (qualitative) and positivist (quantitative) philosophical paradigms were adopted with the purpose of obtaining a greater understanding of board quality decisions in the Public Entities.

This chapter is divided into seven parts. The first part looks into the design of the study. The second part provides the epistemological perspective of the study. The section also links the research questions to the study approach, thereby giving rationale for the study approach adopted. This is followed by a discussion on sampling issues (part three). In the fourth part of the chapter the qualitative and quantitative data collection instruments are presented. This section also includes a discussion on how issues of bias were dealt with. The fifth part of the chapter presents the analytical tools used to analyse both the qualitative and quantitative data. Validity and reliability issues are then discussed (part

six) followed by the final part of the chapter that looks into how ethical issues were handled.

4.2 Assumption of the Research Paradigms

Cresswell (2007) showed the different assumptions associated with both the positivistic paradigm and the phenomenological paradigm. The research design and approach chosen shaped the epistemological basis of the study. This section aimed to create an understanding of how research methods for the study are *implemented* within a phenomenological and a positivist approach. Yin (1994) and Denzin and Lincoln (1994: p.223) pointed out that the type of research questions determine the choice of research methodology to be employed in a study.

Table 4.1 Assumptions of the research paradigm related to the current study

Assumption	Question	Positivistic Paradigm	Phenomenological Paradigm
Ontological	What is the nature of reality?	Reality is objective and singular, apart from the researcher. Reality is determined through the administration of the survey to determine the relationships between board process variables, board decision quality and board activism	Reality is subjective and multiple as seen by participants in a study. In-depth interviews are conducted to explore the phenomenon, board decision quality
Epistemological	What is the relationship of the researcher to the researched?	Researcher is independent from that being researched. Data is collected via a research instrument	Researcher interacts with that being researched. The researcher conducted 12 in-depth interviews and two focus groups
Axiological	What is the role of values?	Value-free and unbiased. Data analysis is done with a software package	Value-laden and biased. The researcher interacts with the data and does thematic analysis
Rhetorical	What is the language of the researcher?	Formal. Based on set definitions and use of	Informal and evolving decisions.

		accepted quantitative words. <i>Existing concepts and its relationships are tested.</i>	<i>Meaning of board decision quality is constructed.</i>
Methodological	What is the process of research?	Highly structured Questionnaire with 43 items	In-depth investigations <i>12 in-depth interviews and two focus group interview</i>

**Table 4.1 Source: Assumptions of the research paradigm related to the current study
Adapted from Creswell (1994)**

The theoretical framework presented in the preceding Chapter and the research questions that this study seeks to address as outlined in Table 4.2 below, suggest that the study is both quantitative and qualitative in nature.

Table 4.2: Research questions and research methods employed in this study

RESEARCH QUESTIONS	RESEARCH METHOD	DATA COLLECTION METHOD
What are the factors that affect board decision quality?	Quantitative and qualitative	Focus group interviews, personal interviews and surveys
What is the strength and direction of the relationship between board decision?	Quantitative	Survey
Does board decision quality mediate the relationship between effort norms, functional area knowledge and cognitive conflict?	Quantitative	Survey
What effect does the three variables have an effect on board decision quality?	Quantitative	Survey

Table 4.2 Source: Research methodology developed on the basis of the research problem as outlined in Chapter 1

Table 4.2 illuminates that the nature of the research questions addressed in this study requires both qualitative and quantitative methodologies. A case in point is that to address the first research question a qualitative methodology is appropriate in that very little is known or researched about board decision quality, board process variables and board activism. Though some of the variables that affect board decision quality are conceptually derived, qualitative research is required to unravel insights that might not have emerged from the literature review.

“Why” questions are explored to obtain a better understanding of the social and cultural aspects which trigger different behavioural patterns in participants. The quality and depth of information received with qualitative research is of great significance (Maree, 2010:51).

Furthermore, based on Maree (2010) contention that qualitative methods posing “why” questions are suitable for studying any phenomenon about which little is known. The quality and depth of information derived with qualitative research is of great significance. It aims to describe what participants have in common as they live a phenomenon (e.g. board decision quality). Through an exploratory study, Saunders, Lewis and Thornhill (2009) propose that new insights are unravelled and a deepened understanding of the phenomenon board decision quality emerges. Saunders et al propose approaches to gain to gain a deeper understanding of the phenomena, board decision quality, by doing a search of literature, interviewing of experts in corporate governance and to conduct in-depth and focus group interviews.

This study predominantly used a quantitative method of research and hence makes the epistemological basis of the research positivist in nature. Both Yin (1994) and Hussey & Hussey (1997) expounded that the epistemological position and the research methodology is guided by the type of research questions to be employed in a study.

From Table 4.2 it can be witnessed that all three research sub-questions require survey evidence relating to board decision quality. Further the positivist approach is used to develop the epistemological framework for conceptualising this study and the procedures carried out to build the board decision quality model. The study is reinforced through interviews with board members of public enterprises and corporate governance experts that support public enterprises to add a meaningful, abundant layer to understanding of the dimensions of board decision quality.

In reviewing both the qualitative and quantitative literature (Cresswell, 2003; Leedy and Ormord, 2005; Denzin and Lincoln, 1994), salient features of the two procedures were identified. Quantitative research is associated with a survey method of collecting data. The prominent features of this method are the ability for generating computable data on large numbers of people (a sample) that is representative of a wider population in order to test theories or hypothesis. One of the strengths of quantitative research is that it facilitates an exploration of causality among related variables and thus helps in building models that illustrate the strength and direction of related variables (Maree, 2010; Cresswell and Leedy and Ormord, 2005).

Cooper (2006:199) argued that quantitative research is associated with a survey method of collecting data in an attempt to precisely measure something. Neumann (2006) defined quantitative research as logic of research based on re-organising, standardising, codifying research knowledge and practices into explicit rules, formal procedures and techniques. Both Neumann (2006) and Denzin and Lincoln (1994) concur that positivist research designs requires the early identification and development of research questions, formulation of hypothesis, identification of sampling strategies, research strategies and methods of analysis.

Qualitative research on the other hand is a study in a natural setting and involves a process of building a complex and holistic picture of the phenomenon of interest (Maree, 2010). From an epistemological perspective another distinguishing factor of a

qualitative design is that there is sustained contact between the researcher and the respondents whereas this is non-existent in quantitative research (Leedy and Ormord, 2005). “Why” questions are explored to obtain a better understanding of the social and cultural aspects which triggers different behavioural patterns in participants (Maree, 2010). The qualitative research of board decision quality is an inquiry process of understanding where a researcher develops a complex, holistic picture, analyses words, reports detailed views of informants, and conducts the study in a natural setting (Creswell, 2007). Thus the linkage between theory and investigation is inductive in the case of qualitative research and deductive in the case of quantitative research.

An important distinction between quantitative and qualitative research is ascribed to a technical matter whereby the choice between the two methods has to do with their suitability in answering particular research questions (Maree, 2010; Leedy and Ormord, 2005, Yin 1994). Not only does this study employ quantitative and qualitative approach to address the research questions, but also there is a merging of data sources. In reviewing Table 4.2 it can be observed that two methods of collecting qualitative data have been used: personal interviews and a case study method.

The Research Plan

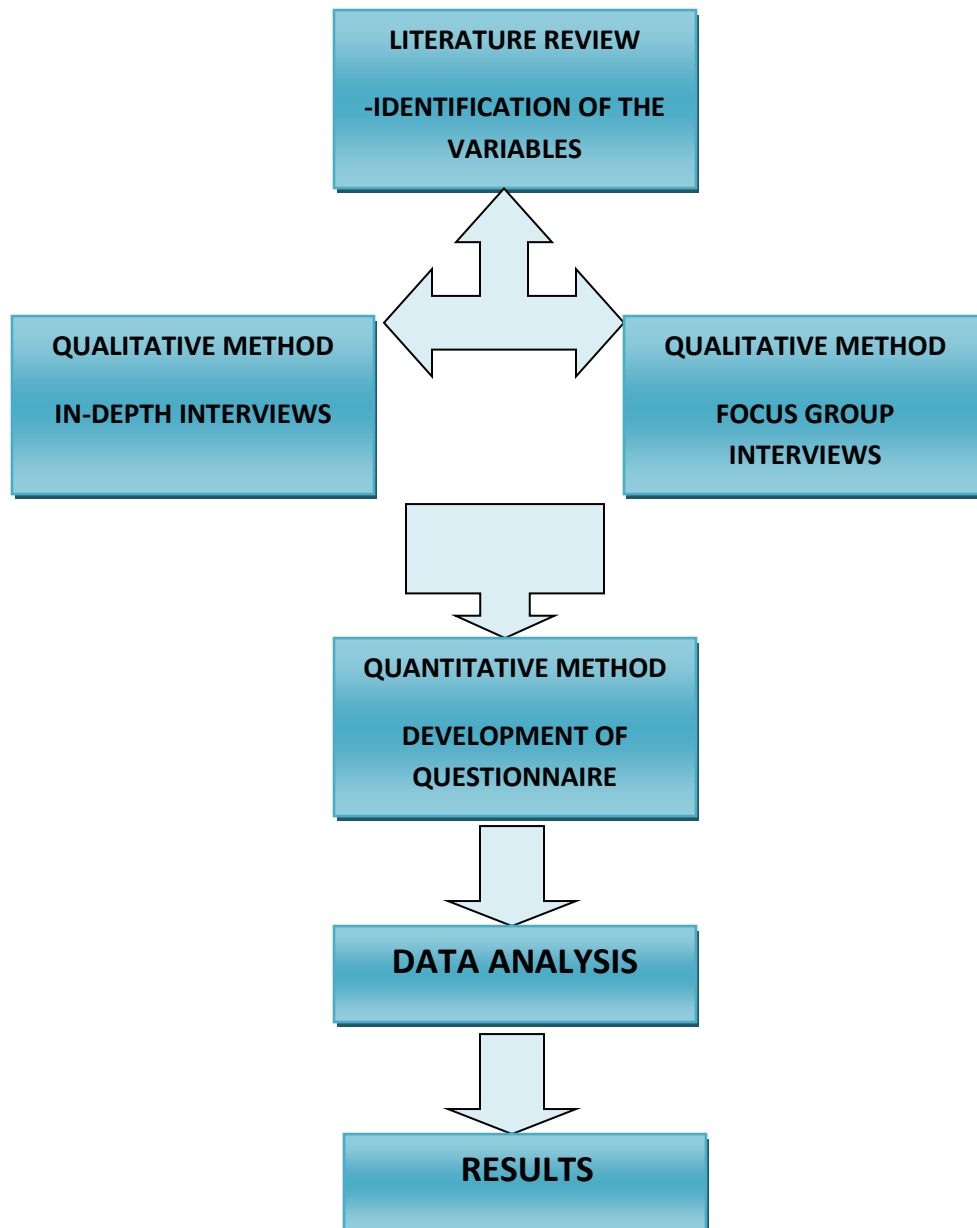


Figure 4.1: Research Plan for the study

4.2.1 Quantitative versus Qualitative Approaches

The figure 4.2 and Table 4.2 also serves as summary of the foregoing paragraphs, by linking the research subjects, research method with research questions. As much as there are multiple data sources, the board decision quality survey is the empirical

backbone of this study. In concurring with Maree (2010) a number of data sources, both qualitative and quantitative methods have been used to obtain crucial information to enrich the understanding of the phenomenon, board decision quality. There was recognition that depth and scope of information could not have been available if personal interviews, or surveys or case study methods were used exclusively. Particularly in this study, the reason for employing the multiple data sources, depicted in figure 4.1 is to be able to provide substantive contribution to board decision quality body of knowledge. Essentially, the purpose of this study is to develop a model of board decision quality and its relationship to board process variables. In so doing a two-stage methodology was adopted as illustrated in figure 4.2.

Combined research strategies are also referred to as mixed methods, multi-method and integrated method. For this study, two research strategies have been combined in a single research design. The positivist research strategy which includes a survey has been combined with a phenomenological research strategy a case study.

Combined research strategies build on both qualitative and quantitative methods. Text information is obtained through interviews and observation and numeric data is collected through the survey instrument. Information received from the participants or the findings from the study is connected at various points within the study (Maree, 2010:264). Maree (2010) suggested that there are three mixed methods designs of research, namely explanatory mixed method design, exploratory mixed method design and the triangulation mixed method design. The study on board decision quality used an exploratory mix method design.

Figure 4.2 Exploratory mixed methods design

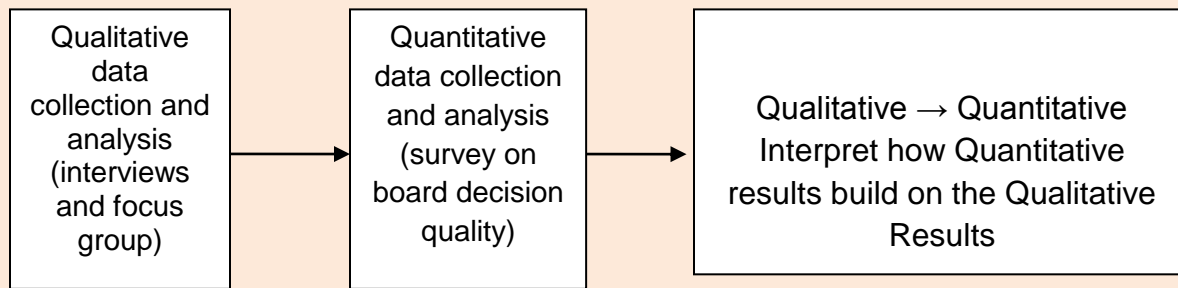


Figure 4.2: Exploratory mixed method design, source adapted from Maree (2010: 267)

4.3 Research Design

Cooper and Schindler (2008) defined research design as a blue print or a structure to obtain answers to research questions. In accordance with this definition this study was designed to explore decision processes that are likely to yield quality decisions from the perspective of Public Entity boards; and to ascertain whether or not board process variables help to improve board decision quality and consequentially board performance.

Data for both phases was collected from participants identified from the Public Entities selected for the case study. As suggested by Eseinhardt (1989), who contributed significantly to the body of knowledge of case study research, in selecting case studies, efforts should focus on theoretically useful cases.

As observed in Figure 4.2, responses to phase one questions shaped the research agenda for the second phase of the research. The purpose of the first phase was to explore the factors that contribute to board decision quality. For this phase, qualitative data was collected from two focus groups and personal interview participants. The variables identified from this phase informed the design of the survey instrument used to collect data in the second phase of the research process.

Therefore the qualitative methodology chosen for phase one was found to be appropriate given the nature, size and location of the investigation. Furthermore, the qualitative method applied supports the research philosophy that informs the investigation.

Figure 4.3: Research Design

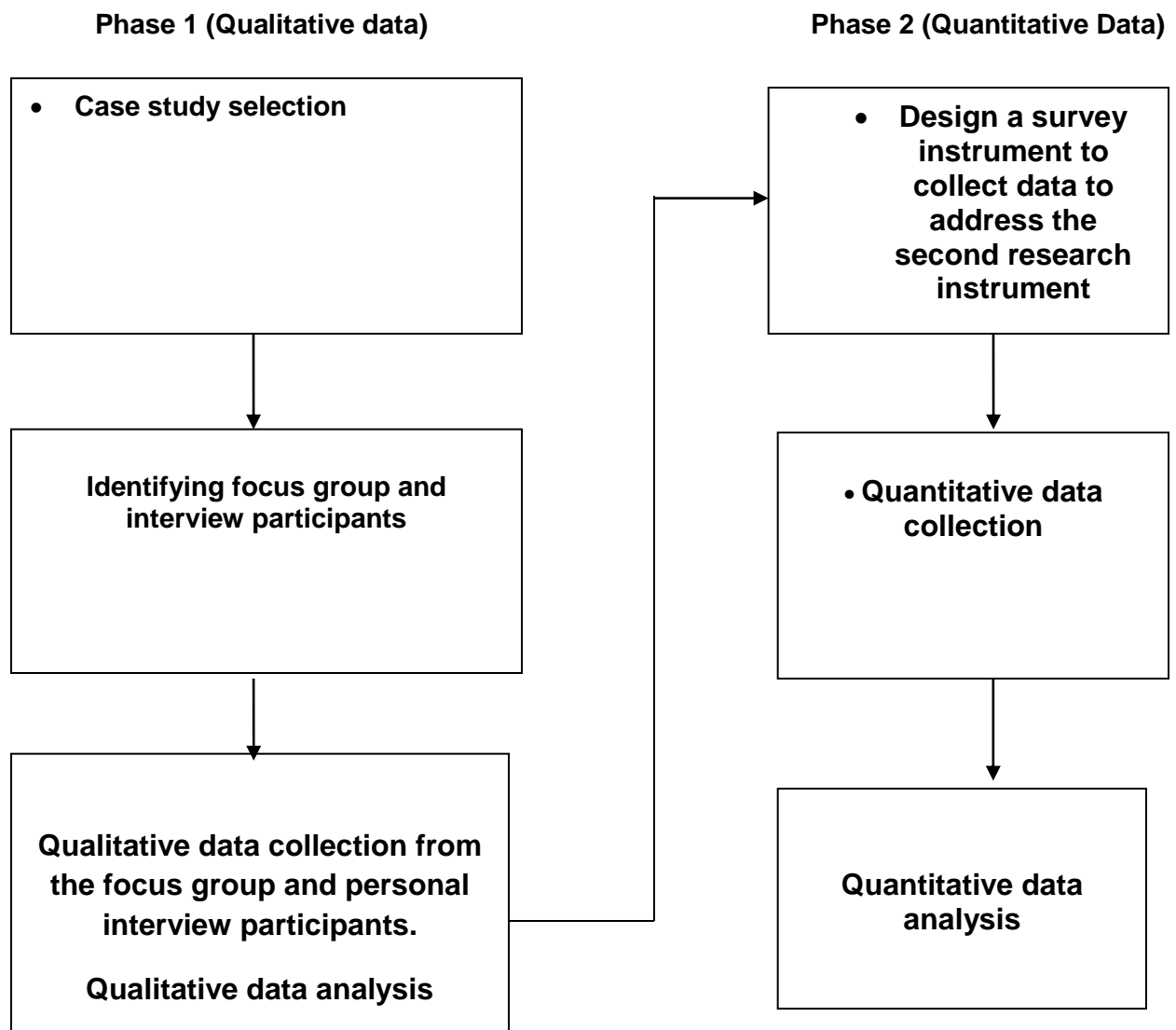


Figure 4.3: Research design for the study

The data collected in the first phase was qualitative in nature, in contrast to the phase 2 data which is quantitative in nature. Table 4.3 below outlined the characteristics of qualitative research as pointed out by Ryan, Coughlan and Cronin (2007).

Table 4.3: Characteristics of qualitative research

Qualitative research	
Truth	There are multiple truths regarding board decision quality - generalization is not sought
Purpose	Concerned with discovery and description of board decision quality and its relationship to board activism although verification is also possible
Context	There is attention to the social context (board meeting and associated board events) in which events occur and have meaning
Emphasis	There is an emphasis on understanding the social world from the point of view of the participants in the study - an emic perspective
Approach	The approach is primarily inductive
Relationship between researcher and participant	There is integration between researcher and participant - interaction is valued
Sample	Usually small (21 research respondents) in number but consists of those who are able and willing to describe the experience
Data	Elicits 'soft data', i.e. words
Data Collection	The major data collection techniques include interviewing, participant observation, examination of personal documents and other printed materials. Procedures and tools of data gathering are subject to on-going revision in the field situation.
Analysis	Analysis is presented for the most part in a narrative rather than numerical form, but the inclusion of some quantitative measures and numerical expressions.
Rigour	Credibility, transferability (fittingness), dependability, conformability. Goodness

Table 4.3 Source: Ryan, Coughlan & Cronin (2007). Step-by-step guide to critiquing research - Part 2: qualitative research

The cases are chosen either to replicate previous cases or to extend the emergent theory as suggested by Eisenhardt (1989).

4.4 Research Strategy

Saunders, Lewis and Thornhill (2009) argued that the choice of strategy will be guided by the research questions and objectives, the extent of existing knowledge, the amount of time, the philosophical underpinnings and other resources that are available. For the

study on board decision quality in Public Entities an embedded case study research strategy will be used.

4.4.1 Case Study

Case studies focus on one (or just a few) instances of a particular phenomenon with a view to providing an in-depth account of events, relationships, experiences or processes occurring in that particular instance (Denscombe, 2008). In accordance with the definition of a case study, South African Public Entities were chosen for the study. Denscombe (2008) argued that using a case study relates to the scale and scope of an investigation, and makes allowance for the use of a variety of methods depending on the circumstances and the specific needs of the situation. One of the strengths of the case study is that it allows the researcher to use a variety of sources, a variety of types of data and a variety of research methods as part of the investigation. Document analysis, interviews and a survey was used to understand board process variables, board decision quality and board activism.

a. Characteristics of a case study

Depth of research	Rather than	Breadth of study
The particular	Rather than	The general
Relationships/processes	Rather than	Outcomes and end-products
Holistic view	Rather than	Isolated factors
Natural settings	Rather than	Artificial situation
Multiple sources	Rather than	One research method

Table 4.4 Source: The Good Research Guide for small scale social research projects (Denscombe, 2008)

There are merits and demerits about single case study versus multiple case studies Yin (2009: 53). In agreement for single case study, Dyer and Wilkins (1991: 634) too advocated that a single case study research presents a better opportunity for the deep understanding of a particular social setting. Dyer and Wilkins (1991: 615) argued that, *a multiple case study research places too much emphasis on general constructs, and*

neglect the more tacit and less obvious aspects of the setting under investigation. They are more likely to provide a rather distorted picture or no picture at all, of the underlying dynamics of the case. In contrast to the single case study approach advocated by Dyer and Wilkins (1991), Eisenhardt (1989) advocated for a multiple case study approach. In accordance with the contributions of Glaser and Strauss (1967) and Eisenhardt (1989) cases are chosen for theoretical (theoretical sampling) and not statistical reasons. Pettigrew (1988) agreed that cases are chosen, to replicate previous cases or extend emergent theory or fill theoretical categories (polar types or extreme situations) in which the interest is transparently declared. With full consideration of the arguments advanced by scholars Yin (2009), Dyer and Wilkins (1991), Dyer and Wilkins (1991) and Eisenhardt for single or multiple cases – a multiple case approach was chosen (four state-owned enterprises).

b. Embedded-case study

An embedded case study methodology provides a means of integrating quantitative and qualitative methods into a single research study (Scholz and Tietje, 2002; Yin 2003). However, the identification of sub-units allows for a more detailed level of inquiry. As pointed out by Yin (2003) the embedded case study design is an empirical form of inquiry appropriate for descriptive studies, where the goal is to describe the features, context, and process of a phenomenon.

Because this study is part of a process to develop a model for board processes and board decision quality in Public Entities, Eisenhardt's (1989) roadmap for building theories from case study research was used. Eisenhardt (1989) takes a view that a case study is a research strategy which focuses on understanding the dynamics of specific settings by collecting qualitative and quantitative evidence using a combination of data collection methods such as interviews, questionnaires and observations. Below we provide a concise account of Eisenhardt's framework for building theories from case studies.

Eisenhardt's Roadmap for Building Theories from Case Study Research

Eisenhardt contributed significantly to the body of knowledge of case study research by putting a framework that explains an eight-step process of theory building from case studies. As illustrated in Figure 3, the process starts with an initial definition of the research questions in order to have a well-defined focus when collecting data.

Eisenhardt (*ibid*) suggests an “*a priori specification of constructs* to facilitate a “*firmer empirical grounding for the emergent theory*”. Early identification of research questions and specification of constructs and/or variables are tentative because the variables identified in the initial stages may not be part of the resultant theory. Focus may shift as new evidence emerges during the research process.

Eisenhardt placed emphasis on the importance of formulating a research problem with corresponding research questions and specifying variables with some reference to existing literature. The second step involves selecting cases. The purpose of this step is two-fold: (1) to focus efforts on theoretically useful cases; and (2) to define the limits for generalising the findings so as to enhance external validity.

The cases are chosen either to replicate previous cases or to extend the emergent theory. The third steps involve development of research instruments and protocols for collecting data from multiple sources. The rationale behind this step is to have multiple data sets that can be viewed from different perspective to foster a synergistic view of evidence. In so doing, the empirical grounding of the research propositions is strengthened. The fourth step involves entering the field to collect data such that data collection and analysis overlap. Eisenhardt (*ibid*) suggests writing field notes as a means of accomplishing the overlap. She explained that the researcher is able to record on-going thoughts, hunches and make necessary adjustments during the data collection process, especially if the adjustments are likely to better ground the theory being developed.

Figure 4.4: Eisenhardt's Framework for Building Theories from Case Study Research

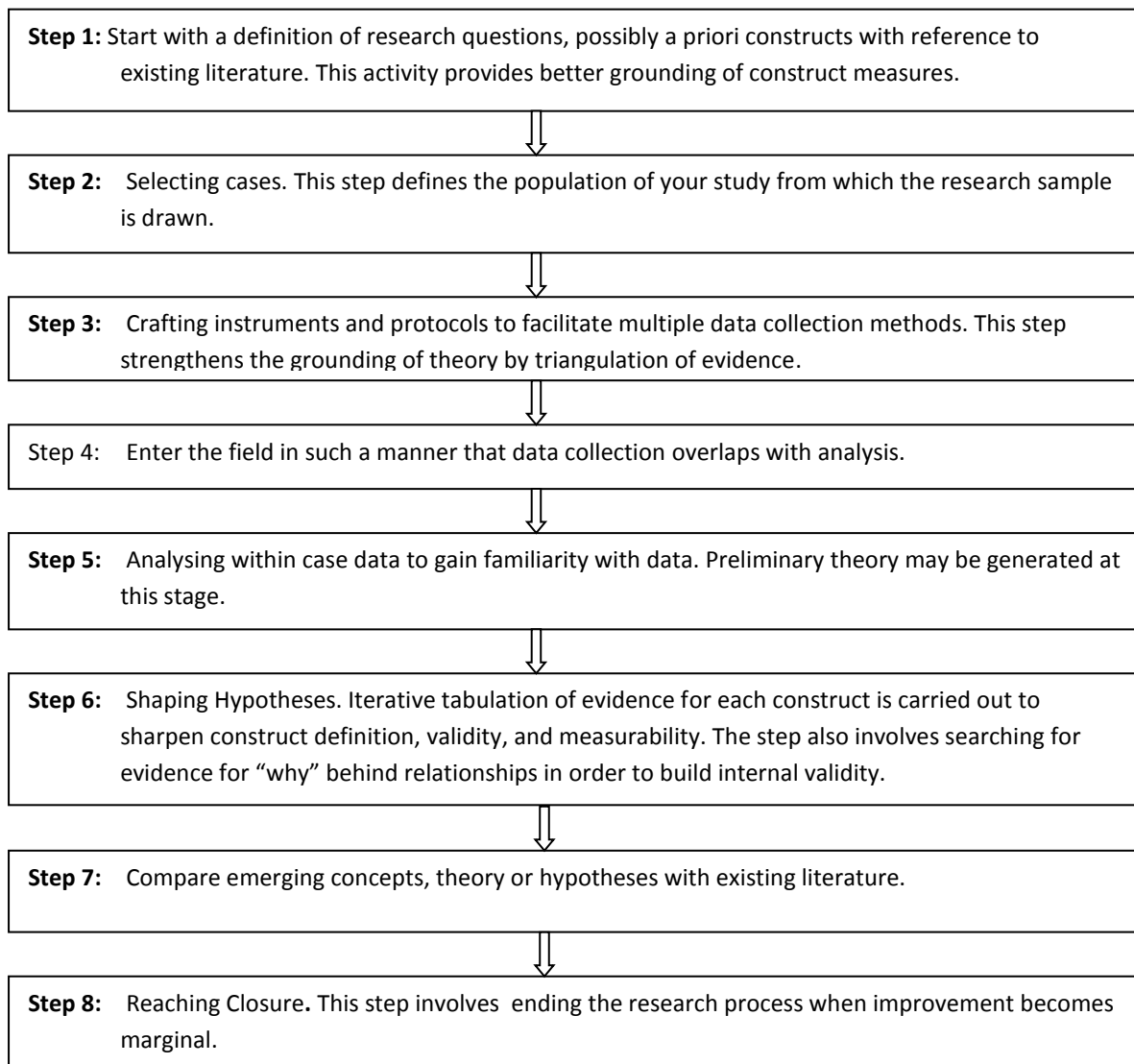


Figure 4.4: Source: Adapted from Eisenhardt (1990). *Building Theories from Case Study Research*. *Academy of Management Review*, 14 (4): 532-550.

The fifth step involves write-ups of descriptions to help researchers cope with the enormous volume of case study data. At this stage researchers may integrate rich and narrative descriptions with extensive use of illustrations, graphs and quantitative data summarised in tables. It is at this stage of theory development with unique patterns of each case being studied start to emerge. As a result cross-case comparison becomes possible.

Evidence, impressions, concepts and themes that emerged during within case analysis is compared and relationships are verified at this stage (step 6). Theory and data is compared and assessed for goodness-of-fit. A close fit is what is required to build sound theory. During this stage, definitions of variables or constructs are refined. Multiple sources of evidence are used to build construct measures.

The seventh step involves a reviewing of literature which conflicts with the emergent theory and interrogate underlying reasons for the conflict. A review of theory discussing similar findings strengthens internal and external validity of the case study findings. The last step requires the researcher to make a call about when to stop the iterating between theory and data. The decision to stop is taken when improvement becomes marginally small.

4.4.2 Sampling Issues

Study population of phase 1: qualitative study

This research will use the purposive sampling method to identify research respondents. Eisenhardt (1989: 537) alternatively called this method the theoretical sampling. This is because the research questions seek to explore the interplay between board decision quality and board activism. Given this particular focus of the research the purposive method is directly relevant as it will assist the researcher to identify cases which will help in the examination of the interplay between small business enterprise growth and the role of the owner manager.

In purposive sampling method (Neumann, 2006) observed, the researcher uses a wide range of methods to locate all possible cases of a highly specific and is difficult to reach from the population. Soliciting information from the board members of public sector boards is particularly challenging. Denzin and Lincoln (1994) elucidated that the logic and power behind purposeful selection of informants is that the sample should be information rich.

This study seeks to address two research questions: (1) What processes do SOE boards follow in making good quality decisions? How board structure is linked to board process? According to Yin (1984, 13), if a study “investigates a contemporary phenomenon within its real-life context”, as is the case with the current study, a case study is a logical methodology. Yin (1984) further explained that the form of a question in terms of ‘how’, ‘why’, ‘what’, ‘where’, also dictates the design of the study, and the case study is more appropriate when ‘why’ and ‘how’ questions are asked. In order to understand all the interacting factors in board process and activism it was necessary to conduct an embedded case study in four public entities: (1) Case Study A; (2) Case Study B; (3) Case Study C; and (4) Case Study D.

Study population of phase 2: Quantitative Research

A target population refers to the *entire* group of individuals or objects or alternatively a full set of cases from which researchers are interested in generalising the conclusions (Organ, 2006 and Saunders, Lewis and Thornhill, 2009). In the study the target population is identified by the public entities that have boards of directors referred to Schedule 1, 2 and 3 public sector organisations.

PUBLIC ENTITY	NUMBER
Schedule 1: Constitutional Institutions	9
Schedule 2: Major Institutions	21
Schedule 3: Part A	148
Part B	29
Part C	82
Total	289

Table 4.5: Public Finance Management Act 1999 – A list of Public Entities –Schedule 1, 2 &3

Schedule 1, 2 and 3 Public Entities (289) in accordance with the Public Finance and Management Act, 1999 is defined as the total population for the study. Schedule 1 is defined as constitutional institutions, Schedule 2 are major public entities (known as

State-owned enterprises or government business entities) and Schedule 3, National Public Entities, National Government Business Enterprises and Provincial Enterprises.

At a national level SOEs can be categorised into three broad groups:

- Constitutional Institutions (listed in Schedule 1 of the PFMA), for example the Municipal Demarcation Board or the Commission for Gender Equality;
- Public entities including Statutory Corporations (listed in Schedule 3A of the PFMA), which includes stewardship bodies, regulators and advisory bodies, for example, museums, the National Energy Regulatory and the Human Sciences Research Council; as well as statutory corporations such as Rand Water and the South African Bureau of Standards.
- Government Business Enterprises or GBEs, which include State Owned Companies in which the state is the sole shareholder, for example Transnet and ESKOM; State Interest Companies in which the state owns a partial share, for example, Telkom; and the Development Finance Institutions – for example the Development Bank of Southern Africa or the Industrial Development Corporation. These are listed under Schedule 2 the PFMA. As noted, the study focuses on all categories Schedule 1, Schedule 2 and Schedule entities as listed in the Public Finance Management Act (1999).

Table 4.6: Types of Public Entities

Types of entities	Schedule 1	Schedule 2	Schedule 3	Cases Selected	%
Constitutional organisation	9			3	33%
Major Public Entities		21		10	48%
Part A: National Public Entities			148	32	22%
Part B: National Government Business Enterprises			29	7	24%
Part C: Provincial Public Entities			9	0	0
Part D: Provincial Entities (Free State)			4	0	0

Gauteng			8	2	25%
Kwazulu Natal			9	0	0
Limpopo			12	0	0
Mpumalanga			3	0	0
Northern Cape			2	0	0
North West			10	0	0
Western Cape			9	0	0
Part D: Provincial Government Business Enterprises EASTERN CAPE			3	0	0
Free State			1	0	0
Kwazulu Natal			4	0	0
Limpopo			2	0	0
Mpumalanga			3		
North West			2		
Western Cape			1		
TOTAL	9	21	259		

Table 4.6 Source: A list of Public Entities in South Africa in the PFMA (1999)

4.5. Study Sample

The manner in which the sample case studies were selected is explained below.

Denscombe (2008) argued that all cases studies need to be chosen on the basis of their relevance to the practical problems or theoretical issues being researched.

Table 4.7 Criteria for the selection of case studies

Criteria	Explanation	Application to the case study
Typical instance	The particular case is similar in crucial respects with the others that might have been chosen and the findings from the case study are likely to apply elsewhere	The selection of cases from Public Entities are chosen because of similar size, budget, etc.
Extreme Instance	The case presents something of a contrast to the cases chosen. An organisation to be chosen can either be large or small.	From the cases of Public Entities, SOEs are selected as they are large and make a significant contribution to the GDP.
Test site for theory	Case studies can be used for the purposes of 'theory-testing' or 'theory-building'	Cases are not selected as a result of theory testing or theory building
Least likely instance	A case might be selected to test	

	the validity of theory by seeing if it occurs in an instance where it might be least expected.	
A matter of convenience	Cases are selected as it involves the least amount of travel, the least expense and the least difficulty when it comes to gaining access	Cases are chosen as it is easy and least expensive. Board members referred me to other members of boards.
Intrinsically interesting	The case is likely to reach a wider audience and the research itself is likely to be a more interesting experience	
Commissioned research	The researcher is left with little leeway or no discretion in the selection of the case studies.	Not considered as a criterion for the selection of cases.
Unique Opportunities	Here events could be once off (natural disasters) or unpredictable (strikes)	Not considered as a criterion for the selection of cases

Table 4.7 Source: Adapted - Criteria for the selection of case studies (Denscombe, 2008)

From the extant literature Table 4.7 demonstrates that cases are not randomly selected; they are selected on the basis of known attributes, criteria and features. Similarly, some the criteria mentioned in Table 4.7 above will be used to select the cases for phase 1 of the study.

This study followed the sub sector approach, which means that only enterprises in one sector (public sector) will be selected and analysed. This approach prevents the methodological challenge of distinguishing between enterprise and sectoral issues. If all the enterprises are in one sector the major macro-economic and business environment issues facing the enterprises are similar. Conversely if the enterprises are in different sectors the major macro-economic and business environment issues facing the enterprises are different. The challenge of attribution is encountered; to establish which factors are internal to the enterprise and which factors are external to the Sector. By choosing the same sector the attribution challenge falls away as all the enterprises face the same challenges.

Having decided that this research will take the same sub sector route (the public sector), the question now becomes: Which sub sector to choose – will it be Constitutional Organisations, Major Public Entities (SOEs\GBEs), and National Government Business Enterprises? The procedure for selecting the industrial sub sector to focus on was provided through the value chain selection protocol as outlined in the value chain selection and upgrading best practices. The criterion for selecting the sector that this research followed was, employment creating growth, the number of Public Entities in the Sector and government prioritisation of the sector. Chapter 1 provided arguments in this regard.

The public entities chosen provide key infrastructural and services critical to the provision of economic growth and development, namely, electricity, telecommunications, transport, water, security and other value added services. A report by BUSA (2011) illustrated that the performance of *key entities providing critical infrastructural services* provides evidence that performance with respect to prices, reliability and quality of infrastructure services had been weak and, worryingly and with some notable exceptions, *is getting worse rather than improving over time*. Whether measured in terms of cost of service, reliability or quality of supply, South Africa's GBEs (and particularly those that dominate the major infrastructure industries – i.e. electricity, telecommunications and transport) have not performed effectively when compared to global comparators or in relation to public expectations. Improving the governance of these entities will contribute to improvement of the performance of these entities.

4.6 Unit of analysis

Neumann (2006: 58) defined a unit of analysis as *the* unit, case, or part of social life that is under consideration. Unit of analysis is critical in concept development, empirically measuring or observing concept, and in data analysis. According to Cooper and Chandler (2008: 234) the unit of analysis described the level at which the research is performed and which objects are researched. In accordance with the definitions of unit of analysis by Neumann (2006) and Cooper and Chandler (2008) Board members

(participants), organisations (State-owned enterprises), management decisions, and documents will be unit of analysis.

As highlighted by Neumann (2006) there can be more than one unit of analysis in one research. In this research there will be two unit of analysis, namely the primary and secondary units of analysis. In this research the primary unit of analysis is the board of directors of the state-owned enterprises. Board of directors is the focus of the analysis. The decisions they make and the actions they take will be analysed thoroughly during the research to determine their impact on the governance control and performance of the Public Entities or lack of it. The secondary unit of analysis is the Public Enterprises itself. The research will analyse the performance trends of the enterprise as a result of the board process, quality board decision making on the performance and sustainability of the organisation. The analysis will seek to determine what the interplay the primary unit of analysis the decisions and actions of the owner manager and secondary unit of analysis, the enterprise and its growth.

a. Entrée and establishing researcher rules

Rubin and Rubin (1995) explained that interviewees are chosen along social and professional networks. In qualitative research, the researcher is the primary data collection instrument (Creswell, 2003). The researcher has to maintain objectivity and be self-reflective and this was done through keeping a field log for field and observational notes (Creswell, 2003). This is done keeping notes on the thinking, feelings, experiences and perceptions throughout the research process. Field and observational notes are made of the participant's non-verbal cues, the dynamics and process between participants in the focus groups and in individual interviews.

4.7 Data Collection Instruments

This section delineates the qualitative and quantitative data collection instruments used for the study.

4.7.1 Qualitative data collection instruments

a. Case study contextual issues

The case study selection for the qualitative and quantitative study is outline in 4.5 above

b. focus group questions

Data was collected by means of two focus group interviews (duration of between 45 and 90 minutes with between five and seven members), The question in this research was open-ended to allow the participant the opportunity to structure an answer in a number of dimensions (Krueger, 1994). The key question posed to the participants was: **“What are the dimensions or measures of board decision quality”**.

Thereafter the researcher reviews the information generated from the interviews, and probes, summarises and paraphrases the main themes that emerged (Burns and Grove, 2005). Data was collected from focus groups interviews until data saturation was attained and it was established that no new information was forthcoming and that the same themes were being repeated (Poggenpoel, 2000).

c. Personal interview questions

The In-depth Semi Structured Interview was the primary data collection method used in this thesis. Similarly, the key question posed to the participants was: **“What are the dimensions or measures of board decision quality”**. Twelve in-depth individual interviews across the four SOEs participated in an in-depth interview. The duration of interviews was between 45 and 60 minutes (De Vos, Strydom, Fouche´ and Delpont, 2005). Data was collected until data saturation was attained; when it is established that no more new information is likely to emerge and that the same themes are being repeated (Poggenpoel, 2000).

Using the guidance of Leedy and Ormrod (2006) and Collis and Hussey (2003) for interviews the researcher explored all dimensions of board decision quality. Questions were posed about facts (especially biographical data), beliefs and perspectives about facts, feelings, motives, present and past behaviour, standards for behaviour and conscious reasons for actions or feelings. A semi-structured process using a few central questions was used by the researcher to explore the phenomenon board

decision quality. The process provided flexibility to the researcher to probe and delve deeper to excavate deeper meaning into the issues. The researcher managed the process and designed the process to ensure that each interview covered the same core issues (consistency). Open ended questions are used so that respondents can provide their opinions as precisely as possible.

The conduct of interviews needed to follow certain parameters for it to be effective in gathering the required data. Leed and Ormrod (2005) synthesised the guidelines offered by Creswell (1998), Eisner (2002), Shank (2002) and Silverman (1993) into a composite guide on how to conduct interviews in a qualitative research. The format this semi structured interview followed the guidelines offered by Perry (2001), Leedy and Ormrod (2005), Nuemann (2006) and Denzin and Lincoln (1994). This research synthesised the guidelines which was then followed. Below are the guidelines which the researcher followed to conduct the interviews:

- I. Identify some questions in advance: the questions must be related to the research questions and the overall research problem. Limit the number of questions to between five and seven. The questions must encourage people to talk about the topic without the research suggesting the direction that the answer should take.
- II. Make sure the interviewees are representative of the population but in some cases 'extremists' can be chosen and in the recording of the interviews and notes the extremists must be identified as such.
- III. Find a suitable location that is quiet and there will be no disturbances.
- IV. Get written permission. The nature of the study and plans for using the results must be explained to the research participant. The research participants must sign a consent form. Offer to provide a copy of the research when the research has been completed.
- V. Establish and maintain rapport. Begin the interview with small talk to break the ice. Be courteous and respectful at all times. Show genuine interest in what the person has to say. The interviewer must not disclose his own thoughts, beliefs and feelings but should use body language and neutral encouragements like "Go on" and "What do you mean" to maintain closeness and trust.

- VI. Focus on the actual rather than on the abstract or hypothetical. Ask what a person does or would do in a specific situation.
- VII. Do not put words in the interviewee's mouth. Let a person express their own views and thoughts. A good interviewer is a good listener.
- VIII. Record responses verbatim
- IX. Demonstrate any reactions to the participant's responses.
- X. The research participant's responses are their understanding and experience of the phenomenon.
- XI. Manage group dynamics when conducting focus group interviews. Ensure that all contributions are made and that there is maximum participation of all research participants.

These guidelines were followed closely in the execution of the field research. This was very useful and valuable advice that the research followed in pursuit of a quality qualitative research

4.7.2 Quantitative Data

a. Research Hypotheses

On the basis of the variables identified in literature and on the basis of the variables and relationships identified from personal interviews this study frames the following hypotheses: The direction of the hypothesised relationships is depicted in Figure 4.2.

H01: There is no relationship between director independence and level of effort norms displayed by public entity boards.

H1: There is a positive relationship between director independence and level of effort norms displayed by public entity boards.

H02: There is no relationship between director independence and level of cognitive conflict displayed by public entity boards.

- H2: There is a positive relationship between director independence and level of cognitive conflict displayed by public entity boards.
- H03: There is no relationship between director independence and usage of knowledge and skills by public entity boards.
- H3: There is a positive relationship between director independence and usage of knowledge and skills by public entity boards.
- H04: There is no relationship between director independence and quality of information used to make board decisions.
- H4: There is a positive relationship between director decision and the level of information quality used to make board decisions.
- H05: There is no relationship between independence and board quality decision
- H5: There is a positive relationship between independence and board quality decision
- H06: There is no relationship between the process variables and the board quality decision
- H6: There is a relationship between board process variables and board quality decision

Figure 4.5: Model illustrating hypothesised relationships*

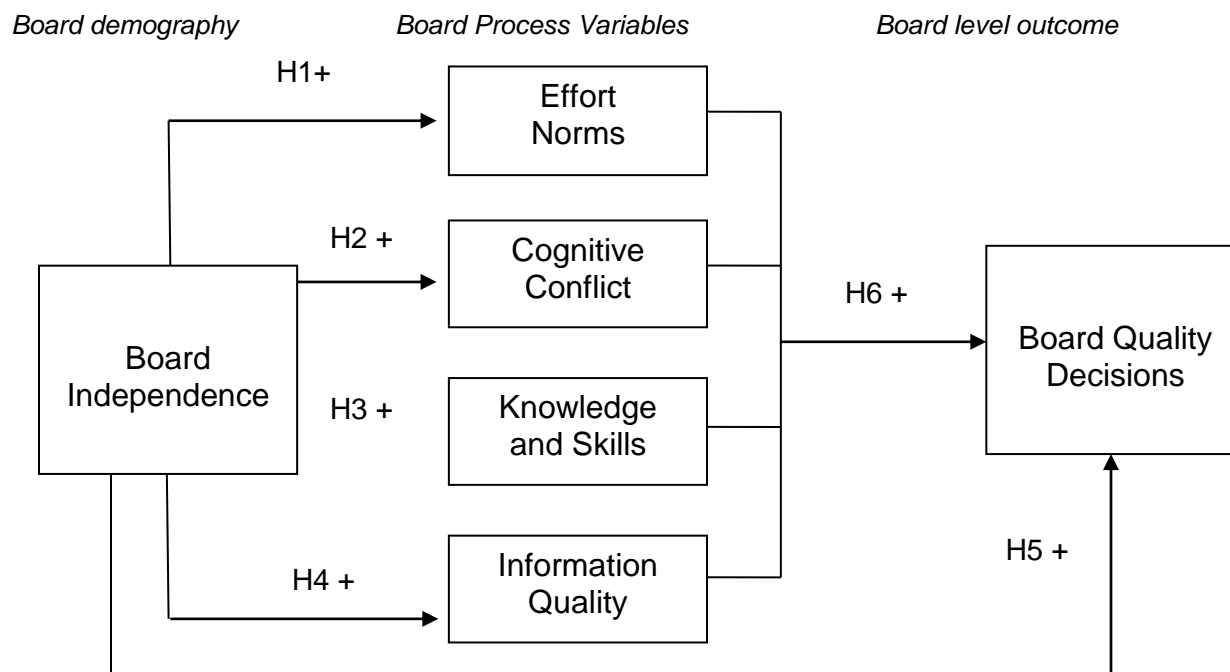


Figure 4.5: Model illustrating hypothesised relationships*

b. Research Instruments

Self-report questionnaires capturing the five variables shown in Figure 4.4 were e-mailed to 289 public entity boards from the three categories of Public Entities. A covering letter informing research participants of the general purpose of the research and assuring them confidentiality and anonymity was attached to the questionnaire. One hundred and eight (108) questionnaires were returned, resulting in 37% response rate.

Table 4.3 below shows 40 items used to measure the five variables: (1) independence; (2) effort norms; (3) cognitive conflict; (4) usage of knowledge and skills; and (5) information quality. The respondents were asked to indicate the extent to which each item applied to their organisation, on a five point Likert Scale of 1-5, where 1 = strongly disagree and 5 = strongly agree.

Demographic items

The first section of the questionnaire had a number of demographic items. The items are considered to have face and content validity based on their grounding in variables used in previous research on the determinants on board performance.

The items included in the study:

- Gender was included as it differentiates between genders and board process variables, but also contributes to the understanding board structural dimensions.
- Age was included to determine the relationship between age, board process variables and board decision quality. Highest qualification is included to determine the relationship between qualification and functional area knowledge
- Number of years in the employ was included to determine the relationship between number of years of service and board process variables.
- Position on the board is included to see the relationship between position and board process variables.
- Participation in sub-committees is included to determine the relationship between participation and board process variables.
- Current or previous participation is included to determine the relationship between participation and board process variables.
- The number of meetings per annum is included to determine the relationship between the number of meetings and board process variables.

Table 4.8: Variable used to measure board decision quality

The measures depicted in table 4.8 below are derived from previous studies on board structure, board process and board quality (Zahra and Pearce, 1987; Forbes and Milliken, 1999; Jehn, 1995 & McNulty and Peck, 2010; Fama, 1980; Young et al., 2000 and Thomas, Schrage, Bellin and Marcotte, 2009).

VARIABLES

Board Quality is defined board activism is a measure of the scope of a board's activities and the degree to which a board is involved in the affairs of the organisation (Zahra and Pearce, 1987).

1. Attend board meetings
2. Attend committee meetings
3. Read board reports prior to meetings
4. Advise and counsel the CEO outside of board meetings
5. Formally evaluate the CEO's performance on a periodic basis
6. Discuss management succession planning
7. Request specific information not normally included in board reports
8. Determine or request specific agenda topics for board meetings
9. Ask discerning questions during board or committee meetings about
 - 9.1 Financial results and reasons for variances
 - 9.2 Operating results and reasons for variances
 - 9.3 Firm strategy or its business model
 - 9.4 Proposed mergers or acquisitions
 - 9.5 Internal control strengths and weaknesses
 - 9.6 Human capital issues
 - 9.7 Corporate culture and ethical conduct

Use of skills and expertise: The use of expertise "refers to the board's ability to tap the knowledge and skills available to it and then apply them to its tasks" (Forbes and Milliken, 1999: 495)

1. All members of this board apply their skills and capabilities to assure the greatest contribution to the tasks of the board
2. The company's executives actively seek to involve the board members in key strategic processes and decisions
3. Committee assignments are made with the intention of ensuring the best use for each director's skills and capabilities
4. During board discussions the most knowledgeable members of the board, regarding the subject area under discussion, generally have the most influence
5. All board members have a good understanding of the skills and capabilities of the other board members
6. The board consults outside experts as and when needed
7. The board is confident in identifying risks
8. The knowledge and skills of board members are updated

Cognitive conflict: "Disagreement about the content of the tasks being performed, including differences in viewpoints, ideas and opinions." (Jehn, 1995: 258 & McNulty and Peck, 2010)

1. All board and executive team members have ample opportunity to constructively challenge and debate decision brought to the board
2. The culture within the board room encourages board members to express their disagreements and concerns when issues are presented to the board
3. Board member deliberations are based upon a healthy discussion of facts
4. The board is able to reach collectively shared decisions following a full and frank debate
5. All board members have ample opportunity to influence the decisions made by the board
6. During board meetings, the board chair creates an environment where all board members are comfortable expressing their opinions without fear of retribution or embarrassment.
7. Discussions are open and candid
8. There is personality clashes among directors
9. Relationships among members are best described as "win-lose"

“**Effort Norms** are a group level construct that refers to the group’s shared beliefs regarding the level of effort each individual is expected to put towards a task” (Forbes and Milliken, 1999: 493)

1. Carefully scrutinise board information prior to meetings
2. Research important issues relevant to the company
3. Takes notes during meetings
4. Participate actively during meetings
5. Invest whatever time is necessary to become an informed and active board member
6. Question management or other board members when necessary
7. The decisions taken at the board meetings are based on research, factual information and much debate and discussion

Effective decision control depends on whether directors are **independent** of executive management (Fama, 1980; Young et al., 2000)

1. Do you believe “independent directors” of your company are truly independent from the CEO or controlling shareholders?
2. What do you think about the following reasons for “independent directors’ not being fully independent from the CEO or the controlling owner?
 - 2.1 Because the CEO has effectively selected the board members
 - 2.2 Because of concern over personal relationships with other directors
 - 2.3 Because openly objecting to the management-proposed agenda is viewed as an act contrary to behavioural norm
 - 2.4 Because the CEO will decide the extension or termination of the directorship
 - 2.5 Because of the concern of possible responsibility/blame when their views turn out to be wrong in the future
 - 2.6 Because the CEO and management team are supposed to be better informed on most issues and have better judgment

Information quality is the board’s ability to provide meaningful oversight and useful advice is determined by the quality, timeliness and credibility of the information it has (Thomas, Schrage, Bellin and Marcotte, 2009)

1. Data to make decisions is available or easily and quickly retrievable (accessibility)
2. The volume of data is appropriate, applicable and helpful for the task at hand (relevancy).
3. The data is not missing and is of sufficient breadth and depth for the task at hand.
4. The extent to which data is compactly (concisely) represented.
5. The extent to which data is regarded as true, credible and reliable (objectivity)
6. The extent to which information is available in time to perform the task at hand (timeliness).
7. The extent to which data is easily comprehended (understandability).
8. The extent to which data is beneficial and provides advantages from its use (value-add)

Table 4.8: Source: Variable used to measure board decision quality (Scarborough, Haynie & Shook (2010))

In this study the analysis of the degree of board decision quality is undertaken utilising a measuring scale adopted and borrowed from previous studies as illustrated in Table 4.8 above.

4.8 Instrument Pre-test

The research instrument was designed to capture the data as specified by the model. The questionnaire was piloted in two phases. The first phase assessed the appropriateness of the terminology used. The second phase of the pre-test was a construct validity test, as it established the correct operational measures for the variables being studied. The second phase of the pre-test was directed to the target respondents. The pre-test sample consisted of 20 board members. As a result of the pre-test, a few minor changes were made with regards to the language and terminology used in the questionnaire

4.9 Data Analysis Process

4.9.1 Qualitative Data Analysis

Thereafter the researcher reviews the information given, and probes, summarises and paraphrases the main themes that are emerging (Burns and Grove, 2005). The data from the interviews were analysed using content analysis guidelines (Terre Blanche, Durrheim and Painter, 2009). The procedure used was firstly to read the full corpus of the narrative, and then to categorise as much as possible for the narrative according to the coding guide. The coding was thus done deductively, starting with predefined

themes (as described in the literature review in chapter 2) and matching the collected data with themes (Terre Blanche, Durrheim and Painter, 2009). Data was collected until data saturation was attained, established when there is no new information and themes are not repeated (Poggenpoel, 2000).

Recorded in-depth interviews and focus group interviews were transcribed verbatim and analysed using a descriptive analysis technique, Tesch's coding (Creswell, 2007). The data analysis process described by Maritz, Poggenpoel and Myburg (2009) was used as a framework for analysing the data below. The process used was to read through the transcript and identify the main topics underlying the discussion and to record these ideas in the margins. After all the ideas were identified the ideas were clustered into topics that reflect their meaning. The ideas were sorted into main topics, unique topics and unassigned topics. Through a process of verifying the topics it was compared to the data and the topics were abbreviated by code and written next to the appropriate segments of the text. The most descriptive wording was chosen to represent the cluster of topics. The procedure was to identify overarching terms that represented the cluster of topics. The topics were defined and categorised.

To ensure validity and data integrity a set of clean data was provided to an independent coder who has experience in qualitative data analysis. A consensus discussion was held between the researcher and the independent coder to verify and agree on the findings.

Data analysis is the search for patterns in data – recurrent behaviours, objects, phases, or ideas. It allows the researcher to move from the description of events and social setting to a more general interpretation of the data (Neumann, 2005). It involves examining, sorting, categorising, evaluating, comparing, synthesising, and contemplating the coded data and reviewing the raw and recorded data. Denzin and Lincoln (1994) set out three steps to data analysis, namely data reduction, data display and conclusion drawing and verification. These three steps will be followed in the data analysis in this thesis.

In concurrence with the approach to data analysis that this thesis will follow as set out above, Denzin and Lincoln (1994: 216) observed that, the qualitative researcher used inductive analysis, which means that categories, themes, and patterns come from the data. The categories that emerge from field notes, documents, and interviews are not imposed prior to data collection. Early on the researcher will develop a system of coding and categorising the data. There is no one best system for analysis.

In agreement with the last sentence in the above quote, Leedy and Ormrod (2005) stated, there is no single right way to analyse data in qualitative research.

In fact not only is there no one right way to analyse qualitative data, the actual process of qualitative data analysis is not very well articulated (Collis and Hussey, 2003: 252).

Data analysis in qualitative research has four major problems, as outlined by Collis and Hussey (2003: 253), namely:

1. **Reducing the data:** Phenomenological research generates a lot of data through field notes, documents, and transcripts of interviews. The challenge is how to condense it into manageable information. One solution can be to use codes to summarise the data. This thesis used codes to reduce the data into manageable information.
2. **Structuring the data:** The manner in which the data was collected was not suitable for analysis. To address this challenge this thesis used the theoretical framework developed in the literature review section, then the collected data was then fitted into the theoretical framework. The framework gave a structure and prior specification of the categories into which the data could be fitted. This existing structure was continually tested against the emerging trends from the data collection with a view to enhance and adapt it.
3. **Anticipatory data reduction:** The researcher developed a theoretical framework or structure through which the some data can be ignored. However anticipatory data reduction was not encouraged in phenomenological research as it restricted

a deep understanding of the phenomenon and limited the collection of rich data. In this thesis anticipatory data reduction will not be used.

4. **Detextualising the data:** Most data in phenomenological research is collected in the form of extended text. This makes its analysis and presentation to different audiences difficult. To address this challenge in this thesis, the data would be converted into diagrams and illustrations for analysis and presentation purposes.

The data analysis for this research will take into cognisance the challenges and utilise the practical solutions proposed for each of them as outlined above. These solutions follow the recommendations provided for each of the challenges by Collis and Hussey (2003).

Thus the data analysis for the qualitative aspects of the study followed the general procedures outlined by Denzin and Lincoln (1994). Emphasis in the data analysis will be on: creating categories, groups, clusters and themes deriving from the data and then identifying the patterns and relationships between them. The overall theoretical framework from the literature review will also assist in guiding the data analysis.

4.9.2 Handling research bias

Rubin and Rubin (1995) explained that interviewees are chosen along social and professional networks. In qualitative research, the researcher is the primary data collection instrument (Creswell, 2003). The researcher maintained objectivity and was self-reflective and this was done through keeping a field log for field and observational notes (Creswell, 2003). This is achieved by keeping notes on the thinking, feelings, experiences and perceptions throughout the research process. Field and observational notes were made of the participant's non-verbal cues, dynamics and the process that unfolded between participants in the focus groups and in individual interviews. Being conscious of how the values influence and become the lense through which the research is conducted and interpreted. Hamill and Sinclair (2010) proposed that

bracketing should be considered throughout the entire research process, not just at the data collection and analysis phases. Earlier understandings of bracketing by Crotty (1996) and Polit and Beck (2008) related to the researcher's preconceptions are held in abeyance to ensure researchers do not allow their assumptions to shape the data collection or impose their understanding and construction on the data. Hamill and Sinclair propose list of what should be bracketed.

Table 4.9 Bracketing

What should be bracketed?
Assumptions (Crotty 1996, LeVasseur 2003)
Assumptions and judgements (Paley 1997)
Biases and beliefs (Dowling 2004)
Beliefs or presuppositions (Draucker 1999)
Experiences and issues (Wall <i>et al</i> 2005).
Experiences and knowledge (Beech 1999)
Judgement (Moran 2005)
Perceptions (Rose <i>et al</i> 1995)
Preconceptions, biases and judgements (Beech 1999)
Presuppositions (Beech 1999)
Presuppositions or pre-understandings (Koch 1999)

Table 4.9: Bracketing - Adapted from Hamill & Sinclair (2010)

4.10 Ethical considerations

To ensure credibility, as pointed out by Ryan, Coughlan and Cronin (2007) the most common criteria used to evaluate qualitative research studies are credibility,

dependability, transferability and confirmability. Other terms such as goodness and fruitfulness may also be used (Lincoln and Guba, 1985).

- *Credibility* refers to the consistency between the participants' views and the researcher's representation of them. Koch (2006) asserted that credibility may be enhanced by the researcher describing and interpreting his/her experiences as researcher. To adhere to the principle of credibility the researcher kept a learning journal or field notes as a record of reflection and learning. Another strategy is to consult with participants and allow them to read and provide feedback on the findings. Further credibility is also demonstrated by prolonged engagement, observation and audit trials.
- *Dependability* (auditability) is achieved through the researcher giving the reader sufficient information regarding the research process and steps so that if another researcher undertakes the research will arrive at the same or comparable conclusions. The research is dependable and auditable.
- *Transferability* (fittingness) refers to whether or not findings can be applied outside the context of the study situation. Transferability is applicable when the findings can 'fit' into other contexts and readers can apply the findings to their own experiences.
- *Confirmability* requires the researcher to demonstrate how conclusions and interpretations have been reached.
- *Goodness* is another criterion against which the trustworthiness and authenticity of qualitative research can be measured.

In relation to rigour and the adherence to the principles of credibility, dependability, transferability, confirmability and goodness the researcher provided a rich description of the research process and steps.

Objectivity

This implied the use of **bracketing** (Hamill and Sinclair, 2010) by placing knowledge and preconceived ideas about the experience between brackets, and instead focused awareness and energy on the experience of participants and the research process (**intuiting**).

Bracketing implies that the researcher willingly lay aside what is known about the experience that is studied to achieve an open context and to facilitate “seeing” all the facets of the phenomenon and the formation of new construct. Intuiting (Burns and Grove, 1987:80) is the process of actually “looking at” the phenomenon and developing insight into the phenomenon. It requires concentration and complete absorption of the experience that is studied (de Vos, 1998:337). In order to achieve meaningful bracketing and intuiting, continual self-evaluation is a prerequisite for the qualitative researcher that is involved in the research process in an attempt to “be unbiased by preconceived notions” (Yin, 1994:56). Creswell (1994:147) stated that qualitative research is interpretative in nature and therefore the assumptions, values and judgments of the researcher are stated explicitly as part of conceptualisation in order to facilitate the conduction of valid, reliable research.

The way in which participants view the researcher is of cardinal importance. Where the researcher is seen as a stranger or intruder, the outcome of the study may be affected. For this reason prolonged engagement enhanced the trustworthiness of qualitative research. This researcher strived for objectivity in the research. The researcher endeavoured not to be influenced by perceptions, impressions, and biases. Nonetheless, qualitative research is often seen as tainted researcher subjectivity and measurement bias by the quantitative researchers (Hirschman, 1986: 239). Most qualitative researchers believe that there is not necessarily a single, ultimate truth to be discovered. Instead there are multiple perspectives held by different individuals each with equal validity to the truth. The goal of qualitative research was therefore to discover these multiple perspectives (Hirschman, 1986).

4.11 Quantitative data analysis

A. Multiple Regression

The multiple regression analytical tool was used to investigate whether there was a statistical relationship between board process variables (effort norms, cognitive conflict, usage of knowledge and skills and information quality) and board decision quality. The relative contribution of process variables will be analysed with the aim of identifying a variable that has the highest predictive power on board decision quality.

The equations and the corresponding hypotheses that this study tested using the multiple regression analytical tools are listed below:

$$H1: \textit{Effort Norms} = b_1 \textit{Independence} + E_1 \quad \textit{Equation (1)}$$

$$H2: \textit{Cognitive Conflict} = b_2 \textit{Independence} + E_2 \quad \textit{Equation (2)}$$

$$H3: \textit{Knowledge and Skills} = b_3 \textit{Independence} + E_3 \quad \textit{Equation (3)}$$

$$H4: \textit{Information Quality} = b_4 \textit{Independence} + E_4 \quad \textit{Equation (4)}$$

$$H5: \textit{Board Quality Decison} = b_5 \textit{Independence} + E_5 \quad \textit{Equation (5)}$$

$$H6: \textit{Board Quality Decision} = b_6 \textit{effort norms} + b_7 \textit{cognitive conflict} + b_8 \textit{use of knowledge and skills} + b_9 \textit{quality of information} + E_6 \quad \textit{Equation 6}$$

4.12 Validity and Reliability Issues

In qualitative research this refers to truthfulness. It refers to how well an idea fits with actual reality. Qualitative researchers pursue authenticity rather than an absolute truth. Nuemann (2006: 196) defines authenticity as giving a fair, honest, and balanced account of social life from the viewpoint of someone who lives it.

Internal validity refers to the absence of the errors in the design of the research. While it is a concept from quantitative research it still has relevance in qualitative research, which is why guidelines, procedures and protocols have been developed to assist in the execution of qualitative research.

External validity refers to the ability to generalise the findings from a small group to a range of people (Perry, 2001). This measure is generally seen as are more relevant to

quantitative than to qualitative research. In support of this, Denzin and Lincoln (1994: 217) asserted that, *the* traditional view of generalisability limits the ability of the researcher to reconceptualise the role of social science in education and social science.

In qualitative research, two of the major tools to ensure validity are the use of member checks and audit trails (Denzin and Lincoln, 1994). Member check is when the researcher has an outsider, albeit with experience in qualitative research and knowledge of the subject matter, to read the field notes and interview scripts and then the data analysis and findings. This enabled the outsider to check if the explanation fits the description and if the explanation is credible (Hirschman, 1986: 246).

This thesis will use the member check method. It has obtained the acceptance of an experienced scholar in the field of corporate governance to review the final thesis to check that the explanation fits the description.

The audit trail is when there is careful documentation of the conceptual development of the study which leaves an adequate amount of evidence which interested parties can reconstruct the process with to reach the research's conclusion (Hirschman, 1986). The audit trail has six types of documentation: raw data, data reduction, and analysis products, data reconstruction and synthesis products, process notes, materials relating to intentions and dispositions, and instrument development information (Denzin and Lincoln, 1994: 230).

This thesis will ensure that there is a careful documentation of all the steps in the development of this thesis which can allow for a reconstruction. An adequate amount of evidence will be provided for all the steps. This will be an audit trail that can be used by interested parties.

The use of the member check and the audit trail will enhance the validity of this thesis.

Reliability

Reliability refers to dependability and consistency. This means that the same studies procedures on a particular phenomenon can be repeated in the same conditions and produce the same results (Neumann, 2006: 188)

Qualitative researchers want to be consistent in how phenomena are observed over time. The challenge is that the phenomenon that is observed is not stable over time. Researchers emphasise the changing nature of the relationship between the researcher and the phenomena being studied. Because of this importance of the nature and role of change in the qualitative approach, qualitative researchers reject the concept of replicability as it is used in the quantitative approach. Proponents of the qualitative research approach accept that the use of different methods to analyse the same phenomena lead to different results. Moreover, the diversity of perspective gives a richer view of what is regarded as complex reality in the social world. In support of this, Denzin and Lincoln (1994: 217) asserted that, *the value of case study is its uniqueness; consequences, and reliability in the traditional sense of replicability.*

The validity and reliability issues as discussed above were succinctly summarised by Yin (2009: 41).

Table 4.10 Validity and Reliability

TESTS	Case Study Tactic	Phase of research in which tactic occurs
Construct Validity	Use multiple sources of evidence Establish chain of evidence Have key informants review draft case study report	Data collection Data collection Composition
Internal Validity	Do pattern matching	Data analysis

	Do explanation building Address rival explanations Use logic models	Data analysis Data analysis Data analysis
External validity	Use theory in single case studies Use replication in multiple case studies	Research design Research design
Reliability	Use case study protocol Develop case study	Data collection Data collection

Table 4.10: Source: Validity and reliability Yin (2009:41)

This thesis will utilise the case study tactics as outlined in column two of Table 4.10 above to enhance the validity and reliability of the thesis.

4.13. Ethical issues in the study

Neumann (2006: 129) defined ethical issues as, *concerns, dilemmas and conflicts that arise over the proper way to conduct research. Ethics defined what is legitimate and what is not legitimate to do, or what 'moral' research procedure involved. Although there are few fixed rule nevertheless that are agreed principles.*

The dilemmas of ethics in research involve the endeavour to strike a balance between the pursuit of scientific knowledge and the rights of those being studied or of others in society (Cooper and Chandler, 1998). The potential costs of research are loss of dignity, self esteem, privacy, or democratic freedoms by the research participants (Cooper and Chindler, 1998). The benefits of this research have to be balanced against the potential costs suffered by the research participants.

The ethical considerations in research are carried by this individual researcher. He has to guard against unethical behaviour based on his ethical integrity as a person. Before,

during and after the research the researcher will reflect on the research process and actions using his conscience.

Nuemann (2006:130) observed that, *ethical research takes longer to complete, costs more money, and is more complicated.*

The major types of unethical behaviour are **scientific misconduct, research fraud and plagiarism.** (Neumann 2006, 130) **Scientific misconduct** is when a researcher falsifies or distorts the data or the methods of data collection or plagiarizes the work of others (Neumann, 2006: 130). Like most universities UNISA SBL also has policies and procedures to detect misconduct, report it and penalize research who engage in misconduct. The guidelines for ethical conduct are contained in Doctor of Business Leadership Degree Rules and Procedures, the Masters and Doctor degree general information and the Master's dissertation and Doctoral Thesis: A Guide to Research and the Organisation of Material.

This research will meet all of the standards for ethical conduct as laid out in the UNISA SBL guidelines.

Research fraud is when a researcher fakes or invents data that was not really collected, or falsely reports how the research was conducted (Neumann, 2006: 130). This researcher will not undertake in research fraud.

Plagiarism is when a researcher steals the ideas or writings of another or uses them without citing the source. This researcher will not engage in plagiarism.

The researcher will follow the prescripts of doing ethical research in the guidelines provided by Denzin and Lincoln (1994) and Neumann (2006). The *professional codes of ethics were beneficial to structure in and consider all ethical considerations throughout the research process.* Furthermore Neumann (2006: 131- 136) provides 'minimal standards', 'rules' or code of ethics for conducting research by not causing

unnecessary stress or irreversible harm to research respondents, obtain informed prior from prior participants prior to induction and never humiliate, degrade or release harmful information about the research participants.

Informed Consent

To comply with the principle of informed consent the research participants were informed of the nature of the research, and had to provide explicit consent for participating in the research study (Collis & Hussey, 2003). The guidelines provided by Neumann (2006) were followed to draft a letter of informed consent. The letter of informed consent (Annexure C) outlined the research, the duration, the procedure for the research, the risks of participating in the study, a guarantee of anonymity, researcher's details, voluntary participation, benefits or rewards of the study and feedback of the results.

Privacy

However Neumann (2006: 139) observed, the ethical researcher violates privacy only to the minimum degree necessary and only for legitimate research purposes. In addition, he or she protects the information on research participants from public disclosure.

The conditions for confidentiality and anonymity were adhered to in the research process. Cooper and Schindler (1998) argued that the confidentiality pledge ensures that most research respondent's answer the research questions honestly. . Further the respondents had to be convinced that the guarantee of confidentiality will be given and respected. In addition, the information attained through the research from the respondents will only be used for the research and not for any other purposes. The researcher should use codes to protect the identity of the respondents (Cooper and Chindler, 1998).

The respondent may refuse to participate in the research or can decide to withdraw from the study at any point. . This thesis will respect the privacy of all the respondents as laid out in The Privacy, Anonymity and Confidentiality Pledge, Annexure B

Anonymity and confidentiality

The names of the participating board members will remain nameless or anonymous (Neumann, 2006) Even as the details of the case are given, the board directors is protected and the identity of the individuals is protected and the individual remains unknown to the readers.

This thesis will maintain the anonymity of all the respondents as laid out in The Privacy, Anonymity and Confidentiality Pledge, Annexure B

4.14 Chapter summary

This research will attempt to follow the directives of “good research”. This research will follow the sectoral approach and have chosen to focus on the board decision quality in Public Entities. It will follow the inductive research path where the theory will be driven by the data. The first phase used the phenomenological approach where the phenomena will be studied in the context, the board members. The case study method was used to understand the board process and board decision quality of four SOES in relation to board decision quality and board activism. The research used the triangulation method, observers, and data source to enhance validity, objectivity and credibility. For the second phase a survey will be administered to board members.

The data gathering was undertaken through: in-depth semi - structured interviews, observation, focus group and document review. Guidelines, protocols and procedures laid out by various scholars will be followed to overcome perceived weaknesses of the phenomenological approach as a research paradigm. For the qualitative approach to analyse the data, thematic analysis was used to code and cluster emerging themes. For data analysis thematic analysis was used to code and cluster emerging themes.

Finally research was rigorous and adhered to a strong ethical foundation. To this end the research participants signed an informed consent and also a privacy, anonymity and confidentiality pledge that was respected through all stages of the research.

CHAPTER 5

Drivers of Board Decision Quality: *Presentation of Empirical Findings*

5.1 Introduction

The first chapter provided a rationale for study through the crafting of a cogent problem statement. Chapter two examined the evolution, history, theory and practice of corporate governance. Chapter three provided an overview on corporate governance practices in South Africa. Chapter four indicated the research methodology adopted for phase one and chapter 4 outlines the research methodology followed for phase two of the study. This chapter summarises the research findings and provides a basis for the analysis of the data in interpreting derived from the questionnaires and interviews that administered and conducted respectively. A structured result analysis was conducted by following a systemic plan of action. This chapter presents and analyses the results of the findings with respect to the board decision quality concept as applicable to State-owned enterprise and the effect thereof on the entity's performance and sustainable growth. The chapter presented all the findings in accordance with the propositions linked to the research questions.

The aim of this study was to develop a model for board decision quality that identified variables that influence board decision quality in Public Entities in South Africa. Developing such a model was seen as an initiative with potential to develop a better understanding of other determinants of improving board performance and

consequentially improved corporate governance practice. This chapter covered the sequence of the development of the model on board decision quality.

This chapter is divided into two main sections. The first presented results of qualitative interviews with board of directors and the second discussed results obtained through quantitative study.

5.2 Qualitative research: results, discussion and interpretation of findings

The findings for the qualitative side will be discussed below. A number of propositions were constructed that are aligned to the research questions. The main research question is:

“How and why should SOEs achieve board decision quality to optimise performance and become sustainable?”

The sub research questions and a priori constructs

- a. What board process in SOEs influences board decision quality?
- b. What is the relationship between board process and board activism?

Proposition 1: A higher proportion of outside directors lead to higher level of effort norms, higher level of cognitive conflicts, higher level of affective conflict, higher level of process conflicts and higher presence/usage of knowledge/skills.

Proposition 2: A higher proportion of outside directors lead to lower level of cohesiveness.

Proposition 3: A higher presence/usage of knowledge/skills leads to higher level of effort

Proposition 4: A higher level of effort norms leads to higher level of board activism

Proposition 5: A Higher levels of information quality leads to better effort norms and consequentially board activism

Proposition 6: *Higher levels of cognitive conflict leads to better effort norms and consequentially board activism*

Proposition 1: *A higher proportion of outside directors lead to higher level of effort norms, higher level of cognitive conflicts, higher level of affective conflict, higher level of process conflicts and higher presence/usage of knowledge/skills.*

Table 5.1 provided the findings of the variable, independence across the four cases. Overall, there was agreement that outside directors introduce more objectivity and knowledge about external dynamics. Participants were concerned about the directors being truly independent. A further observation was that director interlock could compromise the quality of decision making.

Most participants agreed that a larger proportion of outside directors bring objectivity, better knowledge, an understanding of industry norms and best practise. A respondent commented that “the presence of outsiders directors is more conducive to debate and discussion of a firm's mission, goals, and appropriate strategy”.

The proportion of outside directors must not only be analysed from the perspective of the number of directors but also from the level of independence. A few respondents were concerned that the independence of directors are not assessed. There is an inherent assumption that outside directors are “independent”, hence independence was not verified and this remained the status quo over the tenure on the board. If independence of the board is not maintained, effort norms and board activism will be negatively affected.

Table 5.1: Findings from interviews on independence across public entities A, B, C & D

Construct	Case A	Case B	Case C	Case D
Independence	<p>The presence of a majority of outsiders is thus presumed to be more conducive to debate and discussion of a firm's mission, goals, and appropriate strategy.</p> <p>Independence results in Director interlock and group think.</p>	<p>Independence is not verified and this remains the status quo over the tenure on the board</p> <p>Some board members were concerned about director interlock, a network of directors with common thinking on the same boards.</p>	<p>There is an inherent assumption that outside directors are “independent”</p> <p>The quality of the decisions is compromised because of lack of robust engagement and rigorous scrutiny is not applied to the board issues.</p>	<p>Outside directors bring objectivity, better knowledge, an understanding of industry norms and best practise.</p> <p>The quality of the decisions is compromised because of lack of robust engagement and rigorous scrutiny is not applied to the board issues.</p>

Table 5.1: Findings from interviews on independence across public entities

Some board members were concerned about director interlock, a network of directors with common thinking on the same boards. The implications are that directors may not have sufficient time to attend to board activities across the different boards. A further

implication is that little or no effort is exerted on board activities for the different boards. With little or no preparation board members are not confident to contribute to discussions and decisions made on particular board agenda items despite having the skills and expertise (functional area knowledge). The quality of the decisions is compromised because of lack of robust engagement and rigorous scrutiny is not applied to the board issues. A lack of commitment, engagement and non-accountability becomes the norm and influences the board culture. Consequentially, effort norms and board activism is reduced.

Majority of the participants stated that dissent must be encouraged in that the board must have robust and intelligent discussion to arrive at the right decision. Participants felt that there is enough policies and procedures – checklist, annual board agendas, board charters and protocols so there is knowledge of what should be done. The attention should be moved to why boards make bad decisions. Participants quoted two particular examples of poor decisions made by the SOEs are SAA irregularly awarding sponsorships and bonuses and the short supply of electricity by Eskom resulting in massive rolling blackout affecting economic development and productivity in South Africa.

Proposition 2: A higher proportion of outside directors leads to lower level cohesiveness.

Overall the results in table 5.2 show that cohesiveness is affected by board structure (outsider directors). Cohesion is developed through creating an inclusive and robust discussion space at board meetings. Cohesion must be maintained but not to a point of paralysis (group think).

Table 5.2: Findings from interviews on cohesiveness across public entities

Construct	Case A	Case B	Case C	Case D
Cohesiveness	<p>Cohesiveness is affected by the number of outside directors</p> <p>The chairperson must encourage engagement and an inclusive environment</p> <p>All board members must have an equal opportunity to contribute to the decision making process</p>	<p>Cohesiveness is cultivated through board interaction and the involvement in board activities.</p> <p>Cohesiveness is developed through other board activities – strategic planning, company events, launches, etc.</p>	<p>What level of board involvement (effort norms) is required to sustain group cohesion but not compromise independence.</p> <p>Board size affects the level of cohesiveness</p> <p>Must have cohesiveness but not group think</p>	<p>Outside directors are something treated as outsiders.</p> <p>Outsider and insider mentality</p> <p>Cohesiveness encourages the principle of sameness – agreeableness</p>

Table 5.2: Findings from interviews on cohesiveness across public entities

A respondent stated that having more outsider directors on the board affects cohesion. The members primarily interact at board meetings for limited time so there is limited opportunity to build a team. Outside directors lack knowledge of the organisation’s policies, procedures and systems and their contributions can seem aloof. “There is an assumption that all contributions made by executive directors are biased, is not benchmarked and not best practice” Whereas the contributions made by outside directors need no validation and is accepted unchallenged. This then snowballs into Board dynamics that the outside perspective is what is right and affects participation, engagement and cohesiveness of the team. There was general agreement that board

dynamics must be managed by the chairperson in being inclusive, encouraging participation and exploring all options are considered.

Another interesting perspective emerged on preserving the independence of board members. In this regard some interesting insights were shared by participants. Cohesiveness is cultivated through board interaction and the involvement in board activities. Involvement in other board activities like social events can impair independence. However, this must be safe guarded through the extent of involvement in the board activities so that it does not impair independence. So the question is how to preserve board independence. What are the measures of independence? So what is the fine line? What level of board involvement (effort norms) is required to sustain group cohesion but not compromise independence.

Across the four SOEs, participating in the study, the total number of board members in each SOE ranges between 14-17 members per organisation. A board of this size generates a diversity of views and options. In addition, there is less opportunity to intensely explore and deepen the analysis of options put forth. Cohesion is affected by the range and diversity in thinking. Building consensus creates cohesion amongst members of the board.

Proposition 3: A higher presence/usage of knowledge/skills leads to higher level of effort

Generally there is agreement that the presence of the knowledge and expertise at the board level brings many advantages to the organisation. In particular, the organisation is able to strategically position and remain competitive and sustainable. Based on the volatility and intensity of change the organisation is able to respond and reduce the risks that are posed.

Table 5.3: Findings from interviews on functional area knowledge in Cases A, B, C & D

Construct	Case A	Case B	Case C	Case D
Functional area knowledge	<p>Based on their knowledge Directors are able to develop strategic options that reduce risks.</p> <p>Direct relationship between effort norms, board performance and company performance</p> <p>This tacit knowledge will assist the board to strategically position the organisation.</p>	<p>Outside directors are also familiar with a range of functional knowledge) expertise within particular industries</p> <p>Outside directors are familiar with benchmarks, industry norms and benchmarks within particular industries and this could be invaluable to the organisation for competitive positioning.</p>	<p>From a strategic perspective, to cope with complexity, uncertainty and volatility of the external environment, directors are able to develop strategic options that reduce risks.</p> <p>Superior knowledge and expertise can lead to an organisation's sustainable competitive advantage.</p>	<p>Outside directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups, networks and resources needed</p> <p>Superior knowledge is key to good decision making.</p> <p>Strategic and entrepreneurial skills</p>

Table 5.3: Findings from interviews on functional area knowledge of Cases A, B, C & D

Outside directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups, networks and resources needed. From a strategic perspective, to cope with complexity,

uncertainty and volatility of the external environment, directors are able to develop strategic options that reduce risks.

Outside directors are also familiar with a range of functional knowledge (expertise) within particular industries and this tacit knowledge will assist the board to strategically position the organisation.

Some participants agreed that outside directors have firsthand knowledge of benchmarks, industry norms and benchmarks within particular industries and this could be invaluable to the organisation for competitive positioning.

Some of the participants claimed that outside directors may be connected through board memberships on other boards. The board member status as independent directors becomes compromised or less objective. Group think and familiarity amongst board members can affect decision quality.

Proposition 4: A high level of effort leads to a higher level of board activism

Generally, there is agreement that the full execution of the roles and responsibilities of the board in time and effort. The impact of effort can positively influence the quality of the decision. Conversely, a lack of effort breeds a culture of non-performance.

Table 5.4: Findings from interviews on effort norms in Cases A, B, C & D

Construct	Case A	Case B	Case C	Case D
Efforts Norms	<p>Board members do the necessary amount of research to make more informed decisions</p> <p>Board members have too many board positions and cannot dedicate effort\time.</p> <p>It is like having a generic job description without having the scope and depth of the work defined.</p>	<p>Adequate preparation for board meetings is essential.</p> <p>Information is given on the role and responsibilities of board members, the expectations and standards of performance is not discussed fully</p> <p>Poor preparation = poor participation and the result is poor quality decisions</p>	<p>Board members must commit to the requisite time to fulfil board responsibilities.</p> <p>The operating culture of the board also influences the level of engagement and participation of the board.</p> <p>The symptoms we see is, uneven participation as a result of a lack of preparation, unable to fully assess the risk, etc.</p>	<p>As a result of the lack of preparation participation at board meetings will not be optimal.</p> <p>Poor preparation and participation leads to deferments, delayed responsiveness and missed opportunities.</p> <p>A culture of non-performance developed and reduces the level of participation</p>

Table 5.4: Findings from interviews on effort norms in Cases A, B, C & D

Generally, it was agreed that Board members do not put in the requisite time to fulfil board responsibilities in preparing thoroughly for board meetings and doing additional research. This attributed to having many other responsibilities to other board roles or not receiving the board pack timeously. As a result of the lack of preparation and participation at board meetings performance will not be optimal.

Another, stream of thinking is that although information is given on the role and responsibilities of board members, the expectations and standards of performance is not discussed fully. It is like having a generic job description with knowing the scope and depth of the work defined.

The operating culture of the board also influences the level of engagement and participation of the board. The tracking of board performance and board effectiveness is essential. What is acceptable behaviour at board meetings is not defined? Particular norms develop and this translated into board culture defining how things are done at the board level. Some of these behaviours are deferring decisions as a result of being unable to reach a decision, the number of times a decision is deferred, uneven participation as a result of a lack of preparation, unable to fully assess the risk, etc.

Proposition 5: Higher levels of information quality leads to better effort norms and consequentially board activism

Holistically information quality in the form of the relevance, accuracy, reliability, completeness, conciseness, sufficiency (scope and depth) and timeliness are critical to decision making. Decision quality is dependent on good quality decisions

Table 5.5: Findings from interviews on information quality in Cases A, B, C & D

Construct	Case A	Case B	Case C	Case D
Information Quality	<p>There is little or no focus on information quality.</p> <p>Incomplete or insufficient information could lead to the postponement of decisions</p> <p>No evidence of any internal information quality link to board decision quality</p>	<p>Sometimes too much information can lead to information overload</p> <p>Less is more</p> <p>The accuracy and reliability of the information is critical decision making</p> <p>Round robin practises could results in lower quality</p> <p>Board proposals should be developed and presented to the board</p>	<p>The board packs may be received late and this affects preparation for board meeting</p> <p>Information asymmetry between executive and non-executive directors</p> <p>What types of information is needed and in what level of depth and volumes.</p> <p>No direct evidence of information quality link to board performance , but potential for further research</p>	<p>No discussion on what is expected or what standards to observe.</p> <p>The board should become operational in its focus</p> <p>The relevancy and currency of the information affects decision quality</p>

Table 5.5: Findings from interviews on information quality in Cases A, B, C & D

The participants claimed that in terms of information quality the basics must be considered – receiving the board pack timeously, accurate, relevant, accessibility, and completeness of information and represented and synthesised for the level of discussion. Participants claimed that having the quality information is the first step in

decision making and this information has to be fully interpreted and explored to reach a quality decision.

Further, board members must cultivate the skills to access additional information (expert opinions) and evaluate the information provided by management. The board should be directed by management to think in a particular way. There was a view put forward that although the board are experts in certain functional areas and collectively has a wealth of knowledge there should be no misconception that the board is expected to know everything. There must be an opportunity to consult and seek expert advice if in doubt.

Proposition 6: Higher levels of cognitive conflict leads to better effort norms and consequentially board activism

Table 5.6: Findings from interviews on cognitive conflict in Cases A, B, C & D

Construct	Case A	Case B	Case C	Case D
Cognitive Conflict Process Conflict Affective Conflict	<p>Dissenting views result in better informed products and services</p> <p>There is difference in opinion on how the work is allocated and what resources are allocated</p>	<p>Similar to devil's advocate</p> <p>There is cooperation and collaboration between board members</p> <p>Boards must embrace change.</p> <p>There are no personality clashes amongst the directors</p>	<p>Diversity in thinking leads to a reflective exploration of all the possible alternatives.</p> <p>Boards are not a homogenous group of individuals.</p> <p>Conflict is evident – the allocation of scarce resources</p>	

Table 5.6: Findings from interviews on information quality in Cases A, B, C & D

5.2.1 Discussion of findings for all propositions

Proposition 1: *A higher proportion of outside directors lead to higher level of effort norms, higher level of cognitive conflicts, higher level of affective conflict, higher level of process conflicts and higher presence/usage of knowledge/skills.*

The findings indicate that outside directors brings diverse exposure of industry best practise, technical expertise and expertise on board functionality. Independent director's diverse experience challenges the status quo of the board inculcating better decision process to improve the quality of the decisions taken. The finding of this study is similar to the findings in the extant literature of previous studies.

Wan and Ong (2001) argued that from an agency perspective that outsider directors are more likely to be objective in discussions and deliberations and consider the needs diverse groups in the decision process. A further contribution by Ong *et al.* (2001) is that diversity at the board level could cause higher levels of affective conflict and lower level of cohesiveness. Moreover, outside directors are less familiar with the organisational policies, processes and procedures and the consequence could be higher levels of process conflicts

Alternatively, with outsiders on the board, task performance issues become more urgent and hence result in higher level of cognitive conflict. In the same manner, a higher level of effort norms will be exerted by members to do a better job with the presence of diverse personality and backgrounds of different members.

McIntyre, Murphy and Mitchell (2007) advanced the idea that the board is responsible for decision control and the board as a team of individuals that play a role in developing and selecting creative ideas for the advancement of the firm. The presence of a majority of outsiders is thus presumed to be more conducive to debate and discussion of a firm's mission, goals, and appropriate strategy (Ong and Wan, 2001). Further, such debates enlarge the basis of expertise, force management to consider a wider range of options and clarify constraints within each strategy implementation. As argued by Hillman, Cannella and Paetzold (2000), outside directors bring with them a different set of skills and knowledge to the firm. With a higher proportion of outside directors, there would accordingly exist a larger percentage of business experts (e.g. directors of other firms), support specialists (e.g. lawyers and bankers) and community influential (e.g. political leaders and university professors) in the firm. In other words, a larger proportion of outsiders in a company is likely to imply higher presence/usage of knowledge/skills. Similarly, Lawler, Finegold, Benson and Conger, (2002) argued a shift in focus to a shift more than shareholder value towards a stakeholder approach. The movement away from “old boys’ clubs” to responsive stakeholder Boards with an increase focus on ethical behaviour.

Proposition 2: A higher proportion of outside directors leads to lower level of cohesiveness.

The findings indicate that cohesion is slightly “impaired” with more outside directors. If directors are not familiar with each other then cohesiveness will develop over time. The board decision quality will improve as a result of diverse perspectives. Diverse thinking can negatively affect decisions in terms of the time it takes to make a decision. The right amount of cohesiveness is needed to be effective.

In the extant literature studies on cohesiveness are from a number of perspectives, namely the complexity of the tasks and decisions, the size of the board, consensus, cognitive conflict and board culture.

Choi, Park and Yoo (2007) agreed that the effectiveness of the Board will depend in part on how well the Board functions as a group (or as a team) to handle the complex tasks it faces. Similar studies done by Weick (1979) by the nature of being outside director, having part-time status; met only periodically, the relationship among directors is one of partial inclusion. Furthermore, Park (1995) argued the part-time involvement of directors is a cause for ineffective board performance.

O'Reilly, Caldwell and Barnett (1989) argued that the impact of cohesiveness on strategic decisions from the perspective of generation and implementation. Generation of diverse thinking is negatively associated with social integration and consensus in groups. Groups such as boards value cooperation, are more cohesive and more motivated to maintain cordial relations. Consequently, this leads to higher pressure for conformity (group think), limiting the quality of both alternative generation (thinking) and evaluation of decisions. They put forth the notion that the effectiveness of strategic decision roles is positively related to social integration and consensus. Within such groups, there exists high level of cooperation, frequent communication and group

identification, all of which will enhance the implementation of decisions (Guth and MacMillan, 1986). Furthermore, consensus can create more feelings of satisfaction with the decision-making process, giving rise to greater decision acceptance and commitment (Isbella and Waddock, 1994).

Goodstein, Gautam and Boeker (1994) argued that increased size can significantly reduce cohesiveness among board members. Large boards may encounter more hindrances for a consensus on decisions as a result of the diversity in views and thinking. Shaw (1981) for example reasoned that directors might experience lower levels of motivation and satisfaction with the lack of participation characterizing large work-groups. Gladstein (1984) added that larger teams may be more difficult to coordinate due to the large number of potential interactions among members.

Scarborough, Haynie and Shook (2010) argued that the relationships between board culture, directors' cohesion, and cognitive conflict should also be explored. Further they argue that much of the normative literature points to the importance of board activities that build group cohesion as being vitally important to healthy board relationships. The partial inclusion status of outside directors referred to by Weick (1995) can be transformed by involvement in board activities. Board trips to visit plant sites and board dinners prior to meetings are seen by directors as building group cohesion, which in turn, sustains cognitive conflict and positively influences decision quality. Scarborough, Haynie and Shook (2010) argued that does involvement in board activities besides board meetings impair independence? Without group cohesion, cognitive conflict can slip into the realm of affective conflict with all its dysfunctional consequences.

Further McDonnell & Moynihan (2011) argued that boards should be aware of factors that limit effective board decision quality, such as limited information, dominant personalities or agenda restrictions. They also proposed that factors which may distort judgement in the decision-making process such as conflicts of interest, emotional reliance or inappropriate reliance on previous experience.

Proposition 3: *A higher presence/usage of knowledge/skills leads to higher level of effort*

The findings indicate that level and types of functional area knowledge will positively impact the organisation. Director's rich knowledge about industry, best practice and experience becomes the organisation's strength and competitive advantage. These findings correlate with extant literature in this regard.

For boards to perform effectively, Ancona and Caldwell (1988) argued that directors must possess functional knowledge and skills with external networks for information gathering and problem solving. Nonaka (1994) added that it is also necessary for directors to have firm-specific knowledge and skills so as to make informed decisions. Carlson (1998) added that directors could benefit from each other's knowledge and experience. It aided in reducing mistrust that might initially exist when individuals do not know each other well or have not worked together.

Besides the factor of independence outside directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy (Hillman, Canella and Paetzold, 2000).

Scarborough, Haynie and Shook (2010) found empirical support for the positive relationship between functional area knowledge and board activism which is consistent with current strong boards are well-balanced boards in terms of varied backgrounds, experiences, and perspectives of directors (Blair, 1950; Copeland and Towl, 1947; Forbes and Milliken, 1999; Koontz, 1967; Norburn, 1986; Salmon, 1993). More recently, Rindova (1999) suggested that boards of directors should be viewed as intellectual assets of a corporation. Boards of directors are potentially valuable assets because both outside and inside directors bring a variety of experiences, judgments, and functional area knowledge that are potentially applicable to the cognitive needs of the corporation.

To cope with complexity, uncertainty and volatility, directors develop perceptual filters and dominant logics (Prahalad and Bettis, 1986) that correspond to their experiences as leaders of their own organizations and as directors of other organizations. Ong and Wan (2001) further argued that following the thinking by Prahalad *et al.* (1986) board of directors, are comprised of directors who bring multiple perceptual filters and dominant logics to the governance of a corporation. It is the diversity of these perspectives and the degree to which they match the cognitive demands of a particular corporation that increase board activism.

Directors' varied knowledge domains thereby reduced the risk of competitive blind spots (Zajac and Bazerman, 1991). Directors categorised information they receive and create links to pre-existing knowledge areas and beliefs, and use these links to conceive actions and consequences. Scarborough *et al.* (2010) agreed that directors with diverse functional area knowledge increase the overall cognitive capacity of a board. Thus, functional area knowledge is critical to both the scope and the ultimate quality of directors' decision-making. When cognitive capacity matches the cognitive demands of a corporation's business environment, board activism increases. In other words, as cognitive diversity is applied to the cognitive needs of a corporation's competitive environment, a board's involvement in the affairs of a corporation increases.

Maharaj (2008) if board members are not knowledgeable about finances, industry or environmental issues that are affecting the corporation then they will not be fully engaged in discussion and dialogue during board meetings. Additionally, board members must be able to develop problem-solving skills (capacity to create new knowledge) to render benefits to the corporation.

Effective corporate governance depends largely on the perceived value of the knowledge base, knowledge flow, and the motivation to receive and share knowledge among board members and between board members and management.

Proposition 4: A higher level of cohesiveness leads to effort

Summers, Coffelt and Horton (1988) defined cohesiveness as the extent to which directors are attracted to each other and motivated to stay with the board. Below cohesiveness is argued from the perspective of the part-time nature of the outside director, the nature of the interaction of board members and the size of the board. Weick (1979) noted that as boards met only periodically due to the part-time status, the relationship among directors is one of partial inclusion. Furthermore, Park (1995) extended the argument, that the part-time involvement of directors is a cause for ineffective board performance. Cohesiveness thus encompasses the affective relationship of directors and represents their ability to stay and work together.

O'Reilly, Caldwell and Barnett (1989) argued that the impact of cohesiveness on strategic decisions. They argued that the robust generation of ideas is negatively associated with social integration and consensus in groups. Further boards value cooperation, are more cohesive and more motivated to maintain cordial relations. Consequently, this leads to higher pressure for conformity, limiting the quality of both alternative generation and evaluation of decisions. Within such groups, there exists high level of cooperation, frequent communication and group identification, all of which will enhance the implementation of decisions (Guth and MacMillan, 1986). Furthermore, consensus can create more feelings of satisfaction with the decision-making process, giving rise to greater decision acceptance and commitment (Isbella and Waddock, 1994).

Atkinson and Atkinson (2010) propose that there must be active promotion of the expression of diverse opinions. They further argue that there is social pressure to conform to group norms and provide examples below in this regard. Common inhibitors to the expression of diverse opinions are statements like: "I am sure we are all on the same page," "We all need to be onside on this issue," or "Any thinking person will agree with this point of view."

Goodstein, Gautam and Boeker (1994) argued that increased size can significantly reduce cohesiveness among board members. Large boards may encounter more hindrances for a consensus on decisions. Shaw (1981) for example reasoned that

directors might experience lower levels of motivation and satisfaction with the lack of participation characterizing large work-groups. Gladstein (1984) added that larger teams may be more difficult to coordinate due to the large number of potential interactions among members.

Board dynamics and board culture has major influence on board decision quality.

Proposition 5: A higher level of effort norms leads to higher level of board activism

The findings indicate that the level of effort individually and collectively results in improved decisions. It will become board culture to exert maximum effort in executing board responsibilities individually and collectively. The outcome of consistent effort will result in board activism. The extant literature below provides a similar analysis.

Scarborough, Haynie and Shook (2010) agree with Sonnenfeld (2002) that truly high-performing boards of directors are ones that act as robust, effective social systems. In fact, he argues some of the most effective boards of directors do not follow all structural rules-of-thumb. Instead, truly high-performing boards of directors are ones that act as robust, effective social systems. Effort norms are a fundamental element of a board's social system – they are shared beliefs about the level of effort directors should expend on board work. A key element in creating an effective board of directors is the devotion of sufficient time, effort, and resources to the corporation (Pound, 1995). Strong effort norms directly and indirectly communicate to all directors what they are expected to invest personally to become informed and active board members.

Proposition 5: A high level of information quality leads higher level of effort

Thomas, Schrage, Bellin and Marcotte (2009) recognizes that management at all times knows more about the business than the company's shareholders (and directors) do, and that this information asymmetry. They propose directors need to overcome this

information asymmetry so that they will have a firm grasp of the business and the risks it faces.

They proposed that the nature and quality of interactions between company's management and board and four types of interactions were identified, namely: (1) Open discussion or review is possible when each side reveals what it knows to the other; (2) the board fulfills its role as adviser when members share insights and experiences with management; (3) disputes are possible between management and the board when the line between management's knowledge (of operations, for example) and that of the board is challenged by the board's quest for further discussion or review; (4) The danger zone is the space where neither management nor the board has knowledge about a situation (for example, competitor behaviour or legal/ethical terrain).

5.2.2 Structure of the model emerging from the qualitative study

Board process is hypothesized as an intervening variable between structure, CEO-chairman duality and (2) insider/outside directors (most studied board structure variables) and performance, following the arguments by Ong Wan (2011), Johnson, Daily and Ellstrand (1996) and Buchanan, and Huczynski (1997).

The conceptual model for the study of the inter-relationship among board structure, board processes influencing increased board decision quality, positively impacting board activism, and consequentially performance.

In this section, the structure of the integrative model will be explained. Next, the variables will be defined, operationalized and propositions will be formulated. Briefly, the conceptual model suggests a direct relationship between (1) board structure and board processes and (2) leading to board decision quality, increased board activism and positive board performance. With following the arguments by Wan & Ong (2001), Johnson, Daily and Ellstrand (1996) and Buchanan, and Huczynski (1997), board process is hypothesized as an intervening variable between structure and performance.

The distinctive characteristics of the model are as follows:

- Firstly, the findings in the extant literature between board structure and firm performance are conflicting and inconclusive. Research done by Berg & Smith, 1978; Rechner & Dalton, 1991; Daily & Dalton, 1994; found that independent CEO-chairman was positively related with financial performance, while research done by Chaganti, Mahajan & Sharma, 1985; Daily & Dalton, 1992; Daily & Dalton, 1993; Ong, 1999 found no relationship between CEO-duality and firm performance and whereas research done by Boyd, 1995 and Daily and Dalton, 1994; Donaldson & Davis, 1991 and Kiel and Nicholson, 2003 found dual CEO-chairman was positively related with financial performance in high complexity environments. A few studies identified a positive relationship between the percentage of outside directors and firm performance (Pearce and Zahra, 1992; Daily and Dalton, 1993), while other studies found no significant relationship between board composition and company performance (Daily and Johnson, 1997; Bhagat and Black, 1999; Hermalin and Weisbach, 1991; Klein, 1998; Dulewicz and Herbert (2004). Hence, board structure still remains an important variable to study in any serious board research.
- Research done by Scarborough, Haynie and Shook (2010) elucidated that having an independent board would alleviate these conflicts of interests and promote board activism. Further they argued that effective decision control is dependent on the independence of the board of directors. In addition, the independence of the board would allow organizations greater access to information and other critical resources, which promote the activism of the board. Scarborough et al (2010) proposed that board activism increases as the proportion of outside board members increases, which is the premise behind board independence.
- Secondly, instead of studying all aspects of board structure, and in accordance with the guideline of King III, one area which have been extensively examined: (1) the proportion of insider/outside directors (see Dalton & Daily 1999; Davis, Schoorman & Donaldson, 1997; Johnson, Daily & Ellstrand, 1996; Zahra & Pearce, 1989).
- Thirdly, in a study done by (Cartwright, 1980) cohesiveness has also been proposed as a criterion of performance instead of process. For this study, cohesiveness is

part of board processes, similar to arguments put forth by Guth and MacMillan, (1986), Isbella & Waddock (1994) and Ong and Wan (2001).

- Fourthly, if board process variables are considered, a conducive set of group norms emerge and a high performance culture emerges leading to board decision quality. Atkinson & Atkinson (2010) argue that studies of groups have observed that members undergo a process of socialization by which they learn group norms and expected behaviours communicated by board chairpersons.
- Fifthly, board process variables, namely, skills and knowledge of board members, effort norms, information quality and cognitive conflict are reviewed. Scarborough, Haynie and Shook (2010) found empirical support for the positive relationship between **functional area knowledge** and board activism. This findings is consistent with previous research that shows that board members with varied backgrounds, experiences, and perspectives of directors (Blair, 1950; Copeland and Towl, 1947; Forbes and Milliken, 1999; Koontz, 1967; Norburn, 1986; Salmon, 1993) positively impacts board performance. Choi, Park & Yoo (2007), in terms of **cohesiveness**, agree that the effectiveness of the Board will depend in part on how well the Board functions as a group (or as a team) to handle the complex tasks it faces. Effort norms are shared beliefs about the level of effort directors should expend on board work. A key element in creating an effective board of directors is the devotion of sufficient time, effort, and resources to the corporation (Pound, 1995). Strong effort norms directly and indirectly communicate to all directors what they are expected to invest personally to become informed and active board members.
- Finally, for board performance, we concentrate on three main roles of directors: monitoring, service and strategy (Ong & Lee, 2000).

Table 5.7: An integrative model of governance – structure, process and outcome

SYSTEM	ANALYTICAL FRAMEWORK	DETAIL OF ANALYSIS (CODE OF FAMILIES)
BOARD STRUCTURE	Board Independence	The number of non-executive or outside directors on boards and level of independence that it introduces to the decision-making.
BOARD PROCESS	Cognitive Conflict	Cognitive conflict: In cognitive conflict, open debate of different views in groups could lead to faster completion of tasks and more effective use of resources (Schwenk and Valacich, 1994; Tjosvold et al., 1992). Cognitive conflict within groups also encourages people to develop new ideas and approaches, hence enhancing group learning and assessment of situations (Jehn and Mannix, 2001).
	Effort Norms	An examination and analysis of effort norms as a group level construct that refers to the group's shared belief regarding the level of effort each individual is expected to put towards a task (Forbes and Milliken, 1999: 493) Boards undertake their duties with widely varying degrees of attentiveness, analysis, and participation.
	Skills and knowledge	Functional skills pertain to the domains of businesses, including strategic thinking, analytical thinking and result-oriented outlook (Dulewicz et al., 1995). Directors' varied knowledge domains thereby reduce the risk of competitive blind spots (Zajac and Bazerman, 1991).
	Information Quality	Some researchers argue that outsiders are likely to show more objectivity in their deliberations and are willing to

		consider diverse groups in making their decisions (Jones & Goldberg, 1982; Spencer, 1983)
	Cohesiveness	Cohesiveness in the extant literature is studies from a number of perspectives, namely the complexity of the tasks and decisions, the size of the board, consensus, cognitive conflict and board culture
BOARD PERFORMANCE		Strategy, service and monitoring

Table 5.7: An integrative model of governance – structure, process and outcome

5.3 Results, discussion and interpretation of quantitative findings

This chapter focused on reporting the results that were obtained from the data collected through the research process. It presents and analyses the results of the findings with respect to the board decision quality concept as applicable to Public Entities in South Africa. The chapter presents all the findings in tables and graphic form according to each test item on the questionnaire followed by explanations of the graphical presentations. The forward method of regression was used to determine the relationship between independence, the independent variable and the dependent variables (efforts norms, cognitive conflict, knowledge and skills, information quality and board decision quality). Both descriptive and inferential statistics analysis was used to interpret the findings as well as to infer the data statistically.

5.3.1 Hypothesis of the study

Table 5.8 provides a summary of the study hypotheses on board decision quality

Table 5.8: Summary of the Hypotheses tested

Hypotheses	
H ₁	There is a positive relationship between director independence and level of effort norms displayed by public entity boards.
H ₂	There is a positive relationship between director independence and level of cognitive conflict displayed by public entity boards.
H ₃	There is a positive relationship between director independence and usage of knowledge and skills by public entity boards.
H ₄	There is a positive relationship between director independence and the level of information quality used to make board decisions.
H ₅	There is a positive relationship between independence and board quality decision
H ₆	There is a relationship between board process variables and board quality decision

Table 5.8: Summary of the Hypotheses tested

5.3.2 Analysis of the demographic factors

The rationale for this information was to assess if demographic factors would lead and or have any impact on staff turnover in the dispatching section. The responses from the closed ended questions are discussed hereafter

a. Gender

Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	68	65.4	65.4	65.4
Valid Female	36	34.6	34.6	100.0
Total	104	100.0	100.0	

Table 5.9 Gender Dimensions

There is a disproportionate number of females that participated in the study.

b. Age

Age

	Frequency	Percent	Valid Percent	Cumulative Percent
21-30	2	1.9	1.9	1.9
31-40	34	32.7	32.7	34.6
41-50	33	31.7	31.7	66.3
Valid 51-60	31	29.8	29.8	96.2
60-65	2	1.9	1.9	98.1
65 and above	2	1.9	1.9	100.0
Total	104	100.0	100.0	

Table 5.10 Age dimension

There is an almost equal distribution of board members in the different age categories namely, 31-40 (34), 41-50 (33) and 51-60 (31). Age relates to the issue of experience

and know-how. Arguably, directors of the age category 31-40 have less experience and expertise.

c. Qualification

Qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Nil	3	2.9	2.9	2.9
Diploma	3	2.9	2.9	5.8
Bachelor Degree	64	61.5	61.5	67.3
Valid Master Degree	30	28.8	28.8	96.2
Doctoral Degree	4	3.8	3.8	100.0
Total	104	100.0	100.0	

Table 5.11 Levels of qualification

Majority of the board members have a Bachelor Degree (64) and about a third (30) has a Masters Degree. This demonstrates that the board members have the some requisite knowledge to perform their fiduciary responsibility.

d. Board Committees

Board Committees

	Frequency	Percent	Valid Percent	Cumulative Percent
Remunerations Committee	27	26.0	26.0	26.0
Audit Committee	11	10.6	10.6	36.5
Risk Committee	1	1.0	1.0	37.5
Valid Ethics Committee	1	1.0	1.0	38.5
Investment and Treasury	2	1.9	1.9	40.4
SHEQ Technical	62	59.6	59.6	100.0
Total	104	100.0	100.0	

Table 5.12 Types of board committees

Board activity is also executed through the various board activities. These board committees could be developing proposals, fully exploring and investigating an issue and making firm recommendations to the board or even taking a decision for a board item that has been delegated to the committee. From the study is a phenomenal focus on Safety, Health, and Environmental and Quality issues.

e. Number of meetings

Number of meetings

	Frequency	Percent	Valid Percent	Cumulative Percent
1-5 times per annum	80	76.9	76.9	76.9
5-10 times per annum	14	13.5	13.5	90.4
Valid 10-15 times per annum	7	6.7	6.7	97.1
15-20 times per annum	3	2.9	2.9	100.0
Total	104	100.0	100.0	

Table 5.13: Number of meetings

The board members that participated in the study meet on average five times a year.

f. Board Structure

The study shows that the majority of the board members attend meetings between 1-5 times per annum. Attendance at board meetings is at last four times per annum, once every quarter and in addition an extraordinary meeting.

Board Structure

	Frequency	Percent	Valid Percent	Cumulative Percent
Executive Director	27	26.0	26.0	26.0
Non-executive director	66	63.5	63.5	89.4
Valid Independent chairperson	2	1.9	1.9	91.3
Company Secretary	2	1.9	1.9	93.3
Governance Executive	7	6.7	6.7	100.0
Total	104	100.0	100.0	

Table 5.14: Board Structure

5.3.2 The Cronbach's Coefficient Alpha

The Cronbach's alpha is a statistical test used to determine the internal consistency and reliability of the questionnaire. According to Saunders (2003) alpha values greater than 0.7 are an indication of acceptable internal reliability.

Table 5.15 Reliability Statistics

Cronbach's Alpha	N of Items
.796	43

Table 5.15 reliability statistics

Prior to testing the hypotheses, data was tested for internal consistency reliability. Table 5.15 shows the means, standard deviations, and inter-correlations of the study variables. The values of the Cronbach's alpha reliability coefficients for the instruments are all within the 0.7 benchmark. These results establish a good justification for using these instruments for collecting the data for the study.

The standard deviation is low indicating that variability around the mean is low.

Table 5.16: Descriptive statistics, reliabilities and inter correlations of study variables

	Mean	Std Deviation	C. Alpha α	1	2	3	4	5	6
1. Board Independence	2.32	.68	.76	1.000					
2. Effort Norms	3.75	.56	.85	-.163	1.000				
3. Cognitive Conflict	3.80	.63	.85	-.242	.666	1.000			
4. Knowledge &Skills	3.95	.66	.91	-.252	.503	.724	1.000		
5. Information Quality	3.69	.81	.94	.018	.419	.491	.614	1.000	
6. Board Decision Quality	4.06	.63	.85	-.207	.454	.536	.600	.564	1.000

Table 5.16: Descriptive statistics, reliabilities and inter correlations of study variables

5.4 Results of Regression Analyses and Tests

Data was coded, cleaned and loaded into the Statistical Package for Social Science (SPSS). As pointed out in Chapter 4, six hypothesis were tested:

$$H1: \text{Effort Norms} = b_1 \text{Independence} + E_1 \quad \text{Equation (1)}$$

$$H2: \text{Cognitive Conflict} = b_2 \text{Independence} + E_2 \quad \text{Equation (2)}$$

$$H3: \text{Knowledge and Skills} = b_3 \text{Independence} + E_3 \quad \text{Equation (3)}$$

$$H4: \text{Information Quality} = b_4 \text{Independence} + E_4 \quad \text{Equation (4)}$$

$$H5: \text{Board Quality Decision} = b_5 \text{Independence} + E_5 \quad \text{Equation (5)}$$

$$H6: \text{Board Quality Decision} = b_6 \text{effort norms} + b_7 \text{cognitive conflict} + b_8 \text{use of knowledge and skills} + b_9 \text{quality of information} + E_6 \quad \text{Equation 6}$$

We tested our hypotheses using a multiple regression model. The regression analyses results are presented in Table 5.16. The Table shows the dependent and independent variables for each hypothesis, the values of the regression coefficients (standardised), the calculated F- and t-values, and the p-values for the test of significance of regression coefficients.

Table 5:17 Tests of significance for the coefficients in the regression equation

Equation	Dependent variable	Independent variable	Beta Coefficient	F-calculated	p-value	t-calculat	p-value
1	Effort Norms	Independence	$b_1 = - 0.16$	2.80	0.09	-2.39	.09
2	Cognitive Conflict	Independence	$b_2 = - 0.24$	6.36	0.00	-2.52	.10
3	Knowledge & Skills	Independence	$b_3 = - 0.25$	6.93	0.01	-2.63	.10
4	Information Quality	Independence	$b_4 = 0.02$.03	.86	.18	.86
5	Board Quality Decision	Independence	$b_5 = -0.20$	4.13	.04	-2.03	.04
6	Board Quality Decision	Knowledge & Skill	$b_8 = 0.33$	26.17	0.000	3.31	.001
		Information Quality	$b_9 = 0.28$		0.000	2.93	.004
		Effort Norms	$b_6 = 0.79$		0.000	2.03	0.05

Table 5:17 Tests of significance for the coefficients in the regression equation

The F test aims to test the “global significance” of the model. All the F scores for effort norms, cognitive conflict, functional area knowledge, information quality and board

decision quality are moderate to high. The model is significant as it has high f values and low corresponding p values.

As the results in the table 5.17 show the coefficient of cognitive conflict and independence is -0.24. The F-test shows that there is a significant and negative relationship ($F = 6.36, p < .01$) between the dependent variable (Cognitive Conflict) and the independent variable, thus supporting the hypothesis.

Table 5.17 shows that the coefficient of knowledge and skills and independence is -0.25. The F-test shows that there is a significant and negative relationship ($F = 6.93; p < .01$) between the dependent variable (Knowledge and Skills) and the independent variable independence, thus supporting the hypothesis.

For information quality and independence table 5.17 show that the coefficient is 0.01. The F-test shows that there is a significant and negative relationship ($F = 0.03; p < .86$) between the dependent variable (Information Quality) and the independent variable independence, thus supporting the hypothesis

Also in relation to board decision quality and independence table 2 shows that the coefficient is -0.20. Similarly the F-test shows that there is a significant and negative relationship ($F = 4.13; p < .4$) between the dependent variable (Board Decision Quality) and the independent variable independence, thus supporting the hypothesis.

All the p values are low as demonstrated in table 5.17 above which suggests that lower p values indicating confidence that the relationship is not happening by chance.

5.5 Interpretation of the findings

- From the analysis, besides cognitive conflict, efforts norms, knowledge and skills and information quality has the highest beta coefficients, -0.16, -0.25 and 0.01 indicating a strong relationship to independence and board decision quality.
- From table 5.16 above it appears that the direction of the relationship of the variables, effort norms, skills and knowledge, information quality and cognitive conflict when put together is even stronger. Further we can deduce that board decision quality improves the beta coefficients for effort norms increases from -0.16 to 0.79, whereas knowledge and skills increases from -0.25 to 0.33 and information quality increases from 0.01 to 0.28. We further can deduce that effort norm is the highest predictor of board decision quality.
- To determine if the sample that was chosen is likely to represent the population from which was chosen or whether it is likely that the population as a whole has similar characteristics to the sample (a similar coefficient) or whether the coefficient would be zero for the whole population. The t test therefore tests whether the population coefficient is likely to be different from zero. The probability of this is indicated by the p-value.

The results of the F test of overall model fit indicate the model is significant. The results of the t-tests for each partial regression coefficients indicate that there are two significant independent variables, functional area knowledge and effort norms. Independence and duality were not statistically significant, and none of the control variables were statistically significant. The signs of the partial regression coefficients were positive for both significant variables. Refer to Table 5.17 for the Regression analysis. Thus, the regression showed support for both H1 and H4 but not for H2 and H3. While functional area knowledge and effort norms were both positively related to board activism, no relationship was found between independence and board activism or duality and board activism.

The research contributes to the management literature in several ways. Firstly, previous empirical research studies failed to find a consistent and practically significant relationship between board structure and firm performance (Ong and Wan, 2001; Agrawal and Knoeber, 1996; Kesner, 1987). Still other empirical research focused primarily on the effect of directors' independence and duality on firm performance (Zahra and Pearce, 1989). The findings for this research was also inconclusive extracting the lesson that further research would continue to yield the same misguided results. The study lifts the "veil" between board structure and firm performance and empirically tests the antecedents of board decision quality, an intermediate link to effective board governance and firm performance. The research establishes that board structure is not the only variable that influences board performance, there are intervening factors, like board process variables that improves board activism (Scarborough, Haynie & Shook, 2010), improve board decisions and consequentially improves firm performance. The domino effect of a number of board variables that cause a chain reaction that influence board decision quality. This study produces similar results and agrees with previous scholars that future research must delve into dimensions of board process variables (Zona and Zattoni, 2007; Scarborough, Haynie & Shook, 2010) and its relationship to board performance. They urged future researchers to study the intermediate links between board attributes and firm performance (the antecedents of board activism and board decision quality). This study tested an intermediate link and the results were a meaningful addition to the literature. Second, we found empirical support for the positive relationship between functional area knowledge and board activism which is consistent with current knowledge base.

5.6.1 The association between independence and effort norms of directors

Hypothesis 1: There is a positive relationship between director independence and level of effort norms displayed by public entity boards.

As can be seen in the table, the value of the coefficient of effort norms, where the independent variable is independence, is -0.16. Both the F-test and t-test show that this

coefficient value is significant ($F = 2.80, p = 0.09$), indicating that independence is negatively or inversely related to effort norms. This establishes the truth of Hypothesis 1.

This study hypothesised that there is a positive relationship between director independence and level of effort norms displayed by public entity boards. Indeed, the findings supported this hypothesis. It was found that there is a strong positive correlation between independence of board members and the level of effort norms of the board. Accordingly by implication governance practitioners and scholars may consider to more accurately and realistically stipulate what the expected degree of effort that is required from both insider and outsider directors.

Research by Sonnenfeld (2002) argued that truly high-performing boards of directors are ones that act as robust, effective social systems and have shared beliefs about the level of effort directors should expend on board work. Norms have been shown to exert a strong influence on group behaviour (Feldman, 1984; Latane et al.1979; Steiner, 1972; Weldon and Gargano, 1985). A key element in creating an effective board of directors is the devotion of sufficient time, effort, and resources to the corporation (Pound, 1995). According to Pound (1995) strong effort norms directly and indirectly communicate to all directors what they are expected to invest personally to become informed and active board members perform better. Other studies by Lorsch and MacIver (1989) noted that directors that commit to preparation and do the necessary research to obtain information required.

5.6.2 The association between director independence and the level of cognitive conflict

Hypothesis 2: There is a positive relationship between director independence and level of cognitive conflict displayed by public entity boards.

Hypothesis 2 postulated a statistically significant relationship between director independence and the level of cognitive conflict of the board. As the results in the table

5.16 show the coefficient of cognitive conflict and independence is -0.24. The F-test shows that there is a significant and negative relationship ($F = 6.36, p < .01$) between the dependent variable (Cognitive Conflict) and the independent variable, thus supporting the hypothesis.

The P value is used to assess if there exists a statistically significant relationship between variables, director independence and cognitive conflict. Furthermore, a P value that is equal to 10 indicates that there is a relationship between the two variables. However, equation 2 has a p value of .10 ($p \times 100$) is less than 90 indicating that the variability is higher. The p value is equal to 10 and it can be deduced that there is a bigger chance that the relationship is not happening by chance; hence there is a relationship between the variables.

Studies by Jehn (1995) considered cognitive conflict as disagreements about the content concerning the tasks being performed. Amason (1996) proposed that It involves the use of processes involving critical and investigative interaction. Critical investigation has the potential of discovering flawed assumptions in management's plans. Generally, cognitive conflict has been found to increase the number of alternative and creative solutions considered by small groups (Eisenhardt et al., 1997; Jackson, 1992; Milliken and Vollrath, 1991). A Board culture that promotes cognitive conflict has the potential to influence decision quality in the boardroom. The above scholars advocated the advancement of a more sophisticated view of factors that impact a board's decision scope and quality, such as board culture and cognitive conflict. (Schweiger and Sandberg, 1989; Schwenk, 1990) agree that cognitive conflict improves decision quality because the synthesis that emerges from the conflict is generally superior to the individual perspectives themselves.

Jehn, Northcraft and Neale (1999) defined process conflict as the awareness of controversies about aspects of how task accomplishment will proceed, such as who should do what and how much responsibility different people should get. For instance, when group members disagree about whose responsibility it is to complete a specific duty, they are experiencing process conflict.

O'Reilly, Caldwell and Barnett (1989), Guth and MacMillan (1986) and (Isbella and Waddock, 1994) stated that the generation of ideas is negatively associated with social integration and consensus in groups. The principle of cohesion and cooperation consequently, leads to higher pressure for conformity, limiting the quality of both alternative generation and evaluation of decisions. These scholars argued that the effectiveness of strategic decision roles is positively related to social integration and consensus. These scholars recognise the dichotomy of cohesiveness (cooperation and identify) and cognitive conflict to enhance decision making. Isbella and Waddock (1994) claimed that consensus can create more feelings of satisfaction with the decision-making process, giving rise to greater decision acceptance and commitment. Scarborough, Haynie and Shook (2010) promoted research into board culture that is conducive to free and vibrant discussions, encouraging cognitive conflict of the issues pertinent to the long-term success of a corporation and improved decision quality.

5.6.3 The association between director independence and the usage of knowledge and skills

Hypothesis 3: There is a positive relationship between director independence and usage of knowledge and skills by public entity boards.

Hypothesis 3 postulated a statistically significant relationship between director independence and the use of knowledge and skills. Table 5.16 shows that the coefficient of knowledge and skills and independence is -0.25. The F-test shows that there is a significant and negative relationship ($F = 6,93$; $p < .01$) between the dependent variable (Knowledge and Skills) and the independent variable independence, thus supporting the hypothesis.

The P value is used to see if there is a relationship between variables (director independence and knowledge\skills). Furthermore, a P value that equals to or greater than 10 indicates that there is a relationship between the two variables. Equation 4 has a p value of .10 ($p \times 100$) is less than 90 indicating that the variability is higher. The p

value is 10 and we can deduce that there is a bigger chance that the relationship is not happening by chance; hence there is a relationship between the variables.

Studies by Zajac and Bazerman (1991) argued that director's varied knowledge domains thereby reduce the risk of competitive blind spots. Further directors with diverse functional area knowledge increase the overall cognitive capacity of the board and decision quality. Directors' varied knowledge domains thereby reduced the risk of competitive blind spots (Zajac and Bazerman, 1991). Directors categorize information they receive and create links to pre-existing knowledge areas and beliefs, and use these links to conceive actions and consequences. Directors with diverse functional area knowledge increase the overall cognitive capacity of a board. Thus, functional area knowledge is critical to both the scope and the ultimate quality of directors' decision-making.

5.6.4 The association between director decision and information quality

Hypothesis 4: There is a positive relationship between director decision and the level of information quality used to make board decisions.

For information quality and independence table 5.16 show that the coefficient is 0.01. The F-test shows that there is a significant and negative relationship ($F = 0.03$; $p < .86$) between the dependent variable (Information Quality) and the independent variable independence, thus supporting the hypothesis.

The P value is used to see if there is a relationship between variables (director independence) and information quality. Furthermore, a P value greater than 10 indicates that there is a relationship between the two variables. However, equation 4 has a p value of .86 ($p \times 100$) is less than 90 indicating that the variability is higher. The p value is less than 10 and we can deduce that there is a bigger chance that the relationship is happening by chance; hence there may be no relationship between the variables. Ideally, it has to be at a 95% level.

5.6.5 The association between the director independence and board decision quality

Hypothesis 5: There is a positive relationship between independence and board quality decision

Despite several decades of research designed to link the relationship between board structure and company performance. The results of these studies are inconclusive and contradictory (Daily and Dalton, 1999). Scholars like Heracleous (2001; Johnson, Daily and Ellstrand, (1996) and Zahra and Pearce (1989) agreed that there is a mixed relationship between board structure and board performance (for review, see). Further Johnson, Daily and Ellstrand (1996) argued the same that the relationship between board structure and financial performance might not exist at all. Or, if there is a relationship, their magnitude may not be of practical significance. Kesner and Johnson (1990) suggest that, the board is probably not an important, direct determinant of firm performance. The reason is that boards are not involved in daily decision-making. Phan (1998) and Buchanan and Huczynski (1997) claimed that board structure is as important as board process.

The reason for the lack of direct relationship between board structure and firm performance is attributable to the intervening board process. Finkelstein and Hambrick (1996) and Heracleous (1999, 2001) noted that a reason why board structure is unlikely to have universal impact on firm performance is that there are too many intervening processes to expect a strong direct association. The mixed results could be due to both methodological and conceptual issues, such as lack of attention to group dynamics, high complexity of processes, variations in measurements of board attributes and performance. Johnson, Daily and Ellstrand (1996) concluded that since there is little consistency between board structure and firm performance, researchers should inspect the process by which boards may affect company results instead.

5.6.6 The association between board process variables and board decision quality

Hypothesis 6: There is a relationship between board process variables and board quality decision

Hypothesis 6 postulated a statistically significant relationship between board decision quality and board process variables (knowledge & skills, information quality and effort norms). As the results in the table 5.16 show the coefficient of board decision quality and board process variables is 0.33 (knowledge and skills), 0.28 (information quality) and 1.79 (effort norms). It appears that the direction of the relationship changes when the variables are put together and they improve board decision quality. The F-test shows that there is a significant and negative relationship ($F = 26.17, p < .01$) between the dependent variable (board decision quality) and the independent variable (board process variables), thus supporting the hypothesis.

The P value is used to see if there is a relationship between variables (board process variables and board decision quality). Furthermore, a P value greater than or equal to 10 indicates that there is a relationship between the two variables. However, equation 6 has a p value of .10 ($p \times 100$) is less than 90 indicating that the variability is higher. The p value is less than 10 and we can deduce that there is a bigger chance that the relationship is happening by chance; hence there may be no relationship between the variables.

5.7 Revised model of board decision quality

The regression method used the forward method in that all variables were included in the analysis.

5.8 Parsimonious Fit measures

(a) Parsimonious goodness-of-fit index (PGFI)

This is also a non-statistical measure and ranges in value from 0 (poor fit) to 1.0 (perfect fit). The desired threshold for this measure is .90 (Arbuckle 1997; Hair 1998). The hypothesised model had a GFI of .700, which greatly improved to .90 for the revised model. This indicates that the model provides a plausible representation of data.

Similar to the above mentioned goodness-of-fit indices, PGFI is an adjusted GFI, based on the parsimony of the estimated model. Parsimony as Hair et al (1998) define it as *“the degree to which a model achieves goodness-of-fit for each estimated coefficient.”*

The objective is to maximise the number of variables without overfitting the model. There was a better model fit with the variables knowledge\skills, information quality and effort norms.

Figure 5.1: A conceptual model for board decision quality

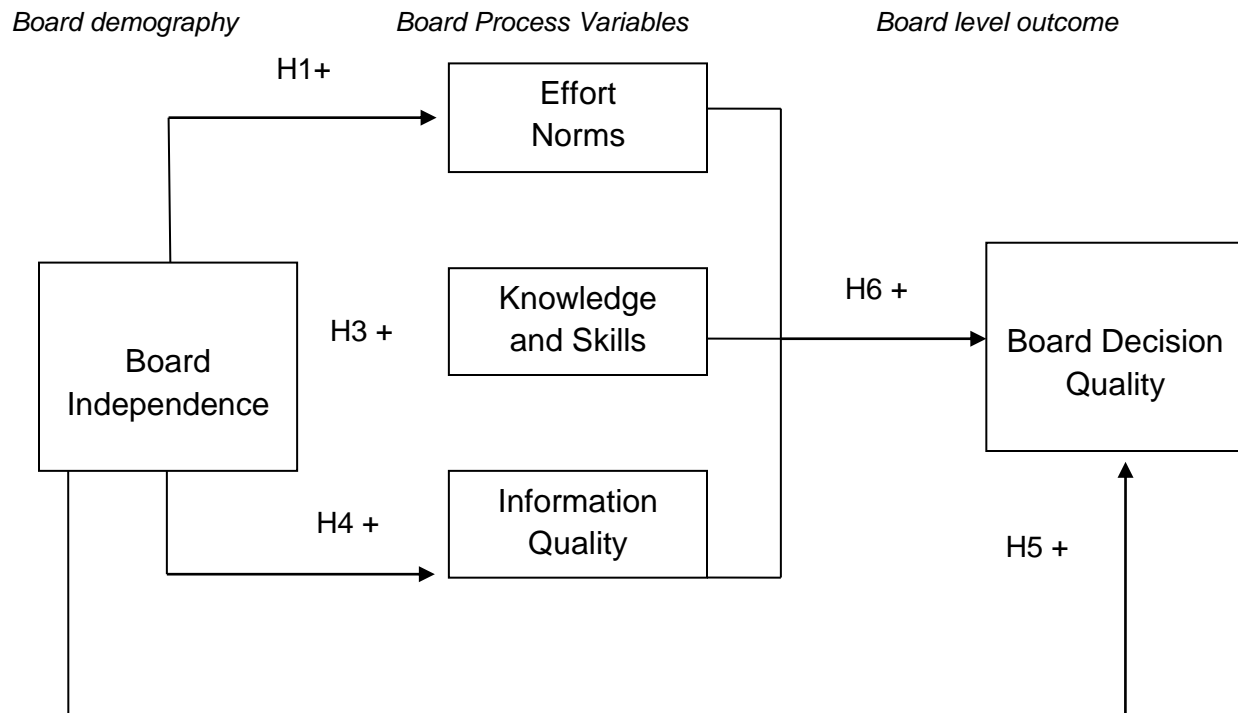


Figure 5.1: A conceptual model for board decision quality

A conceptual model for the study is proposed of the inter-relationship among board structure, board processes and performance. Below the integrated model will be explained and the variables will be fully discussed.

Structure of Model

In alignment with the conceptual model of Wan and Ong (2001) this study too proposed a direct relationship between (1) board structure and board processes and (2) board processes and board decision quality (board performance). Studies by Wan & Ong (2001), Johnson, Daily and Ellstrand (1996) and Buchanan, and Huczynski (1997)

board process is hypothesized as an intervening variable between structure and performance. Distinctive features of our model are as follows:

- Firstly, despite the unequivocal findings between board structure and firm performance, board structure remains an important variable to study in any serious board research.
- Secondly, for board structure, insider/outsider directors are used as a measure (see Dalton & Daily 1999; Davis, Schoorman & Donaldson, 1997; Johnson, Daily & Ellstrand, 1996; Zahra & Pearce, 1989).

Finally, for board performance, we concentrate on three main roles of directors: monitoring, service and strategy (Ong and Lee, 2000). In alignment with scholars (Wan & Ong, 2001; Capon, Farley and Hoenig, 1990) the firm performance is deliberately left out in the model. Firm performance is dependent on many variables. Simultaneously, while it is possible to equate board performance with firm performance, this approach is not taken for the study. As emphasised by Frankforter, Berman and Jones (2000) and Kosnik (1987) the financial performance of a firm is affected by a multitude of endogenous and exogenous factors. Further, as Mace (1986), and Lorsch and MacIver (1989) make clear, boards are not well positioned to oversee the day-to-day financial affairs of the firm.

Definition and Research Measurements for Board Decision Quality

Board structure. As noted above, we propose to study one item of board structure. Insider\outsider duality is coded as a dichotomous variable. The measure of the proportion of outside directors, the figure is the divisor of the number of outside directors and the total number of directors for each company. The theoretical range for this variable is 0-1. The variables are obtained from the annual report of each listed company.

Board processes. In general, according to Zahra & Pearce (1989) board process refers mainly to the decision-making activities of the board. In addition, Anderson and Anthony (1988) noted that board process pertains to the healthy and sometimes rigorous discussion on corporate issues and problems so that decisions can be reached and supported. Further board process is the functioning of the board, planning and organising to achieve board objectives (Dulewicz, MacMillan and Herbert, 1995).

Four process variables were identified based on studies by (Scarborough, Haynie and Shook, 2010; Wan and Ong, 2001; Forbes and Milliken, 1999; Amason and Sapienza, 1997 and Jehn and Mannix, 2001). They are effort norms, cognitive conflict, presence/use of knowledge/skills and information quality.

Board processes which have been identified as affecting board performance include (1) effort norms; (2) conflict; (3) presence/use of knowledge and skills and (4) cohesiveness (Amason and Sapienza, 1997; Forbes and Milliken, 1999; Jehn and Mannix, 2001).

Shaw and Power (1998) argued that for a group to perform successfully, the team must be a cohesive unit with the necessary knowledge and skills to manage conflict that happens so as to establish acceptable norms for problem-solving and decision-making.

5.7 Factor Analysis

Factor analysis was conducted on the correlation matrix to identify factors that could potentially impact on board process and board decision quality and also to reduce the number of individual variables under each factor to a much smaller set of variables that underlie board decision quality.

Table 5.18 KMO and Bartlett's Tests

Construct	Kaiser-Meyer-Olkin	Approx Chi-Square	Df	Sig.	
Board Independence	0.855	390.830	21	0.000	
Board Activism	0.873	1082.510	105	0.000	

Functional area knowledge	0.901	526.602	28	0.000	
Effort Norms	0.814	305.798	21	0.000	
Cognitive Conflict	0.874	684.821	36	0.000	
Information Quality	0.905	757.401	28	0.000	

Table 5.18 KMO and Bartlett's Tests

5.7.1 Kaiser-Meyer-Olkin

KMO was used to measure sampling adequacy to compare the magnitudes of the observed correlations coefficients in relation to the magnitudes of the partial correlation coefficients. KMO values higher than 0.8 is excellent because correlations between pairs of variables (i.e potential factors) can be explained by other variables. Table 5.18 shows that board independence has a score of 0.855, skills\knowledge (0.901), effort norms (0.814), cognitive conflict (0.874) and information quality (0.905).

5.7.2 Bartlett's test of sphericity

The Bartlett's test of sphericity is used to test the hypothesis that the correlation matrix is an identity matrix. The objective is to assess for significance (score of less than 0.05) would show that the variables are correlated. For example a correlation matrix; all items are perfectly correlated with themselves and have some correlation with the other items. Table 5.18 shows that board independence has a score of (0.000), skills\knowledge (0.000), effort norms (0.000), cognitive conflict (0.000) and information quality (0.000). The score for all the factors are less than 0.05 which shows that they are correlated with other items.

5.7.3 Communality

Communality is the proportion of variance accounted for by the common factors or (communality) of a variable. Communalities range from 0 to 1. Zero means that the common factors do not explain any variance; one means that the common factors

explain all the variances. All the above mentioned constructs have a score of 1 that show that common factors explain all the variances.

5.7.4 The eigenvalues

The eigenvalues is the total variance explained by each factor. Any 'factor' that has an Eigenvalue of less than one does not have enough total variance explained to represent a unique factor, and therefore has to be disregarded.

- The eigenvalues for board independence, components 2 through 7 are eliminated from the analysis for having eigenvalues less than 1.0. This is because not all of the variance is explained when only some of the factors are retained in the final analysis.
- The eigenvalues for use of knowledge\skills, components 2 through 8 are eliminated from the analysis for having eigenvalues less than 1.0
- The eigenvalues for effort norms, components 2 through 7 are eliminated from the analysis for having eigenvalues less than 1.0
- The eigenvalues for cognitive conflict, components from 3 through to 9 are eliminated from the analysis for having eigenvalues less than 1.0.
- The eigenvalues for information quality, components from 2 through to 8 are eliminated from the analysis for having eigenvalues less than 1.0.

5.8 Reliability

Table 5.19 presents reliability statistic of all the variables for this study. The Cronbach's alpha is 0.764 for board independence, 0.908 for knowledge\skills, 0.850 for effort norms, 0.854 for cognitive conflict and 0.944 for information quality. These scores mean that the questionnaire had an acceptable degree of reliability and an acceptable level of inter-item consistency.

Table 5.19 Reliability scores for board decision constructs

Reliability of board decision quality constructs	Chronbach Alpha
Board Independence (BODIN)	0.764
Board Activism (BODACT)	0.845
Functional Area Knowledge (FnKnow)	0.908
Effort Norms (EN)	0.850
Cognitive Conflict (CogC)	0.854
Information Quality (INFOQ)	0.944

Table 5.19 Reliability scores for board decision constructs

5.9 CONCLUDING SUMMARY

This Chapter explored how the different board process dimensions interrelate to a board decision quality. Out of the six linear regression equations, for estimating the regression weights for the hypothesised relationships, it was found that all were statistically significant: (1) The relationship between director independence and effort norms; (2) The relationship between director independence and cognitive conflict (3) the relationship between director independence and level of information quality, (4) the relationship between independence and board decision quality and finally (5) relationship between board process variables and board decision quality (see above). With the exception of equation (4) there is no relationship between director independence and information quality.

It was found to be somewhat surprising to have an insignificant relationship between director independence and level of information quality, as this is in conflict with cited information quality literature (see Chapter 2). A practical implication of this finding is that director independence does not have a direct relationship with information quality. Rather the relationship is mediated through the total quality management culture. It is variables such as skills\knowledge, and effort norms that have a direct impact on the board decision quality. However, when the model is put together and information quality, knowledge\skills and efforts norms are included there is significance for the model. Hypothesis 6 postulated a statistically significant relationship between board decision quality and board process variables (knowledge & skills, information quality

and effort norms) As the results in the table 5.16 show the coefficient of board decision quality and board process variables is 0.33 (knowledge and skills), 0.28 (information quality) and 1.79 (effort norms). It appears that the direction of the relationship changes when the variables are put together and they improve board decision quality. The F-test shows that there is a significant and negative relationship ($F = 26.17, p < .01$) between the dependent variable (board decision quality) and the independent variable (board process variables), thus supporting the hypothesis.

The highlight of this Chapter is in the regression weights that were estimated. These regression weights are illustrated in Figure 5.17 provide insight as to which variables have the most predictive power of board decision quality. In the order of the highest predictive power as depicted by the regression weights, the impact of director independence to knowledge\skills is rated the highest (0.25). This is followed by the impact of director independence to cognitive conflict (0.24).

A number of statistics from the factor analysis show that the constructs (effort norms, knowledge\skills and information) are good measures or predictors of board decision quality. From the factor analysis the Cronbach's alpha for all variables has an acceptable degree of reliability and an acceptable level of inter-item consistency. The Cronbach's alpha is 0.764 for board independence, 0.908 for knowledge\skills, 0.850 for effort norms, 0.854 for cognitive conflict and 0.944 for information quality. The KMO values higher than 0.8 is excellent because correlations between pairs of variables (i.e. potential factors) can be explained by other variables. Table 5.18 shows that board independence has a score of 0.855, skills\knowledge (0.901), effort norms (0.814), cognitive conflict (0.874) and information quality (0.905).

The objective of Bartlett Sphericity is to assess for significance (score of less than 0.05) would show that the variables are correlated. Board independence has a score of (0.000), skills\knowledge (0.000), effort norms (0.000), cognitive conflict (0.000) and information quality (0.000).

Communalities range from 0 to 1. Zero means that the common factors do not explain any variance; one means that the common factors explain all the variances. All the above mentioned constructs have a score of 1 that show that common factors explain all the variances.

Furthermore, the board process variables are considered moderating or intervening variables. The model theorises that board decision quality is a function of board structure plus board process variables. For instance this finding confirms the hypothesis that effort norms, information quality and knowledge\skills improve board decision quality. The implication of this finding is that governance can be improved by ensuring that directors are independent, board process variables are considered and result in board decision quality.

Overall, the findings indicate that, the higher board decision quality will cause improved governance and board performance and consequentially result in improved organisational performance. High board decision quality will then result in high board activism and with increased commitment to board activity.

CHAPTER SIX

Conclusions and Recommendations

6.1 INTRODUCTION

In this chapter, the results of the study will be discussed, and conclusions will be drawn. This will be achieved by firstly focusing on what was found in the literature, and then the empirical results will be discussed. This will be followed with a discussion on the extent to which the research goal was achieved. As stated in Chapter 1, the specific goal was to adapt and evaluate a measure of board decision quality for use in the public sector, in Southern Africa. Recommendations will be made regarding the use of the measure and the chapter and the study will be ended off with a discussion of the limitations of the study and recommendations for future research.

To develop a model of significance some essential issues had to be addressed. Among several questions to be addressed is that regarding the notion: **board decision quality**. It became abundantly apparent however, that for a clear understanding of this concept background information around corporate governance thinking was critical. The global overview corporate governance thinking was thus provided in Chapter 1 with specific reference to South Africa where this study was conducted. Furthermore, the historical background of corporate governance theory and practice was covered. Figures 2.1 in Chapter 2 helped put into perspective the characteristics and elements of the board decision quality model

The aim of this study has been to develop a model of board decision quality that would first explain and secondly positively influence board performance in the public sector. Developing such a model was seen as an initiative with potential to develop Theory of Corporate Governance in the Public Sector. Every chapter of the dissertation is a sequence towards the development of a board decision quality model.

Chapter 1 laid the foundation for the thesis not only by presenting definitions, tracing the origins of corporate governance and the evolution of thinking. The context and background provided a good foundation to introduce the research problem, the research questions and the hypotheses. A justification for the research is provided, the methodology is briefly discussed and the rationale for the thesis was presented.

Chapter 1 provided the background of governance theory while Chapter 2 crafted a theoretical foundation for model on governance. This conceptual framework guided the empirical research process. The elements of the conceptual framework were distilled from four sources: (1) board members of Public Entities, (2) governance literature, (3) governance empirical studies, (4) board decision process literature, and (5) board decision quality literature. The literature on board decision quality was reviewed subsequent to the initial exploratory survey. The findings of the initial exploratory survey required the adjustment of the framework and the inclusion of the board decision quality construct.

Having provided background information for the study in Chapter 1, Chapter 2 concerned itself with building the theoretical basis for the model. This required a conceptual framework that was to guide the empirical research process. The elements of the framework were drawn from four sources: (1) corporate governance literature, (2) Board structure empirical studies, (3) board process literature and (4) board decision quality literature. The findings of the initial exploratory survey required the adjustment of the framework and refinement of the variables that influence board decision quality.

Five variables that were identified that influence board decision quality in public sector entities. These include five variables including use of skills and knowledge, cognitive conflict, effort norms, board independence and information quality dimensions. All the six variables and their meaning which were defined in the context of this study were

provided. The variables were specified into causal connections to form the hypothesised relationships.

Chapter 2 covers all the hypothesised relationships which were conceptually derived, the first requirement for model development. At the close of Chapter 2 a model of the hypothesised relationships were integrated to explain board decision quality.

The ensuing sections of the thesis concerned the operationalisation of the variables through theories. The nature of the study promoted the selection and a discussion of the methodologies that were adopted to conduct the study. The research design and sampling plan was influenced by the research questions in Chapter 1 and the conceptual framework in chapter 2. Chapter 3 demonstrates this.

Different data sources were used to build the model, and Figure 4.2 gave a synopsis of the different data sources and the methodologies used to acquire the data. As has already been mentioned, the research was carried out in two stages. First, the research involved an initial exploratory survey carried out to identify the factors of board decision quality in Public Entities in South Africa. This was supplemented by interviews with the industry consultants in order to gain insight and identify variables that were industry specific and not covered in the literature. The interviews with board directors were structured and organised to yield data concerning factors of decision quality.

The first stage of the research was also concerned with case study selection. Additional information about case study organisations was gathered and used to determine how different case organisations vary from one another. In the second stage of the research, a survey was used to gather data from 104 distributors in 3 case study organisations so that the model proposed in Chapter 2 could be tested.

Chapter 3 dealt with the operational definition of variables and constructs of proposed relationships in the model. The nature and the direction of the hypothesised relationships is as illustrated in figure 4.4. The reliability of the constructs was examined.

The nature of the research questions presented in Chapter 1 and 3 and the methodological procedures used for collecting data (qualitative and quantitative) are evidence that this study, in its attempt to develop theory, has not narrowed its view to one particular philosophical paradigm. Instead, the study has adopted both the phenomenological and positivist approaches in order to offset the limitations of any one approach. The presentation of results in different research phases demonstrates this.

The results of the second stage of the research were presented in Chapters 5. In this Chapter the hypothesised relationships in the proposed model were tested. This allowed a comparison between theory and the corporate governance practices. The study provides an opportunity to determine whether the data corresponds to the real life situation.

In the preceding paragraphs, the link between the Chapters has been maintained. The rest of this Chapter is concerned with the discussion relating to conclusions about the hypotheses and the research questions. This Chapter also seeks to relate the theory with findings reported in Chapters 4, 5 and 6. Section 6.2 presents the conclusion for each hypothesis. The conclusions about the research questions are presented in section 6.2

The utility of research goes beyond the research approach and methods hence the implications of this study are provided for practitioners together with a list of recommendations for improving board decision quality in section 6.4. Finally, sections 6.5 and 6.6 deal with the limitations of the study and future areas of research respectively.

With the methodological issues dealt with, Chapter 4 presented the results of both the first phase of the research. At the end of Chapter 4 a cross-case analysis was presented that examined how the four case study organisations varied in terms of skills\knowledge, effort norms, cognitive conflict, information quality, and director independence.

This chapter presents the recommendations, the implications for future research and the conclusions. The chapter emerges and evolves from the findings in Chapter Five, the analysis of the findings and contributions to knowledge . It highlights the main lessons learnt from this research. It also highlights areas requiring further research.

Discussion of results pertaining to the literature review

From Chapter 2, an eight step process is used to structure the literature review as outlined in section 2.1. The outcome of the literature review is discussed below for each step.

Step 1 entailed the definition of governance from several perspectives to define the concept from several perspectives. It can be read in Chapter 2, entailed under section 2.2 that several definitions were found in the literature. The goal in this part of the research was to come to a thorough understanding of what is meant when the word governance is used. The operational definition adopted after reviewing all the definitions was Solomon and Solomon (2004) description that governance as the internal and external system of checks and balances , which ensures that companies discharge their accountability in a socially responsible way in business activity. Naidoo (2009) provided another definition of corporate governance as essentially the effective leadership that is characterized by ethical values of responsibility, accountability, fairness and transparency that regulates the exercise of power in the achievement of organisational objectives.

2. To describe how the concept relates to other variables. It can be read in Chapter 2.2 that several theories or models exist around governance. The theories include the classical theories which include Agency Theory, Berle & Means (1932), Policy Model Theory, Carver & Carver's(1996), Stewardship Theory, Donaldson (1990) & Barney

(1990); Stakeholder Theory which include Abdullah and Valentine (2009), Resource Dependency Theory, Johnson, Daily and Ellstrand (1996); Resource-based View Theory (RBV), Barney (1991), Board Process Variables, Korac-Kakabadse, Kakabadse, and Kouzmin (2001) The theory found most suitable for this research was the Integrative Model Theory by (Dalton, Daily, Ellstrand & Johnson, 1998; Shook and Haynie, 2010; Zona and Zattoni, 2007; Wan and Ong, 2005).

3. To compile several lists of the elements, if any, of which the concept comprises.

Here, the objective was to identify the building block of the concept (board structure, board process variables and board decision quality). The goal was to find the elements that needed to be included in the measure. It was found that board process variables and board structure could be broken down into elements. These are:

§ Structural elements – which include the notion of independence (the number of independent directors)

§ Board process elements – This refers to effort norms, knowledge\skills, cognitive conflict and information quality.

4. To write notes on the validity and reliability of a psychometric measure, and the characteristics of a good measure and its items. This was achieved, and notes were written about test-retest reliability, alternative forms reliability, split sample reliability, internal consistency reliability, scorer reliability, as well as interrater reliability.

5. To list measures and describe the measures of board process. Several measures namely knowledge and skills (23 item measure) by Forbes & Milliken (1999); independence measured as the number of independent directors SEC Guidelines); effort norms (6 item measure) by Forbes and Milliken (1999); cognitive conflict (6 item measure) by Smith, Smith, Olian, Sims, Bannon, & Scully (1994) and information quality (8 item measure). These results can be read in Chapter 2.6.

7. *To describe how measured concept relates to other variables.* It can be read in Chapter 2, under the heading “decision process, decision criteria and decision outcome”

8. *To suggest the selected measure or pool of items to be considered as a measure of the concept.* A pool of nineteen (55) items was selected. These items were the items included in the measure and were the items used in the empirical study.

From the aforementioned, it is clear that literature-related goals of the study were largely achieved. The exception was goal 2 (two) on how the concept relates to other variables.

Discussion of results pertaining to empirical findings

It can be read from Chapter 1 that there were several goals set for the empirical study. These were described under section 1.4 & 1.5. The results pertaining to these goals will be discussed one by one.

1. *To compile a list of items to be tried out in the empirical investigation.* This was achieved taking into consideration the reviewed literature and after consultation with fellow students and the study leader. The questionnaire, as it was used, is an attachment to this document.

2. *A battery of 43 items was compiled of these concepts and combined that with other questionnaires.* This was done, by using the instruments that were developed by Forbes & Milliken, 1999) and Smith, Smith, Olian, Sims, Bannon, & Scully (1994)

3. *The battery was send to a language editor and requested feedback on with specific comments on face validity.* The feedback given by the language editor resulted in minor modifications of the questionnaire. The results of the verification process were an easy-to-read questionnaire with some face validity.

4. *The population was selected for the battery to be administered to determine ist psychometric characteristics.* The population consisted 215 board directors of Public Sector Entities (Schedule1, 2 & 3)

5. *Consent from the participants was obtained and the questionnaire was administered. The participants were informed about the purpose of the study and about their rights.* . Consent forms were completed and signed by the participants handed to each participant can be seen in Annexure A.

6. *To capture the data on SPSS.* This was done in groups of two students in order to eliminate punching errors.

7. *To eliminate items based on their low correlation with construct (correlation matrix), and high levels of gender and race bias.* It can be read from Table 4.2 that one item had a relatively low correlation with the total score.

From Table 4.3, it can be read that five items showed gender bias, and from Table 4.4, it can be read that three items showed race bias. In the summative table, Table 4.5, it can be seen that one (1) item had “defaulted” or showed less desirable psychometric characteristics in more than one area. As this number was too small, it was decided to stick to the suggested measure as proposed originally.

8. *To determine the reliability of the shortened questionnaire.* This was done for the full measure as the proposed measure was not adapted. The reliability of the questionnaire was Cronbach alpha = 0.796. This coefficient is acceptable and it gives an indication of consistency of the participants’ responses on the administration of the questionnaire, and this gives a satisfactory reliability (Hair *et al.*, 2006).

9. *To determine the correlation between measured concept and other concepts measured and identified in the literature review.* The correlation between the measured construct, and knowledge\skills was .53 ($p < .001$) and effort norms 1.23 ($p < .001$),. From the literature, the following relationships were expected:

- There is a positive relationship between director independence and level of effort norms
- There is a positive relationship between director independence and level of cognitive conflict

- There is a positive relationship between director independence and usage of knowledge and skills

10. *To discuss the utility of the questionnaire for future use.* Given the reliability of the questionnaire being .796 indicating its acceptability to be used as a measure of board decision quality.

Conclusions

All the goals of this study, as set out in Chapter 1 were achieved. The resulting measure of board decision quality is now available for use in the public sector. More knowledge reliability of the measure and the validity thereof is now available.

This will allow for more confident use of the measure *relatively low correlation with the total score.* From Table 4.3, it can be read that five items showed gender bias, and from Table 4.4, it can be read that three items showed race bias.

6.2 CONCLUSIONS ABOUT HYPOTHESES

To test whether a relationship exists between two variables, and to determine whether the differences between two variables are statistically significant. Depending on the nature of the variables two statistical tests were conducted in Chapter 4. These tests include regression analysis and factor analysis. The results of these hypotheses tests are examined and their implications are discussed. The discussion will also look at the simultaneous effect of all the variables in the model, in connection with how they interrelate and their impact on board decision quality.

It should be noted that the data used to test hypothesis (H1 – H6) was based on the survey questions. A sample used to test the hypothesis is board directors of Public Sector Entities.

There is a positive relationship between director independence and level of

effort norms displayed by public entity boards.

There is a positive relationship between director independence and level of cognitive conflict displayed by public entity boards.

There is a positive relationship between director independence and usage of knowledge and skills by public entity boards.

There is a positive relationship between director decision and the level of information quality used to make board decisions.

There is a positive relationship between independence and board quality decision

There is a relationship between board process variables and board quality decision

6.2.1 The association between director independence and the level of effort norms of public entity boards.

Hypothesis 1: The degree to which director independence has an effect on the level of effort norms by public entity boards.

This study hypothesised that there is a positive relationship between director independence and level of effort norms displayed by public entity boards. Indeed, the findings supported this hypothesis. It was found that there is a strong positive correlation between independence of board members and the level of effort norms of the board. Accordingly by implication governance practitioners and scholars may consider to more accurately and realistically stipulate what the expected degree of effort that is required from both insider and outsider directors.

King III advocates for more independent directors to occupy director positions and having a proportion of outside members on the board helps to alleviate the extent to which there are conflicts of interests (Fama, 1980; Young, Stedham & Beekun, 2000). Secondly, from a resource dependency perspective theorists view boards of directors as means to gain some level of control over critical resources in their external environment (Barringer and Harrison, 2000; Boeker and Goodstein, 1991; Pfeffer, 1972). With no conflict of interest and the ability to attract critical resources needed by the firm there will be increased involvement in the activities (board activism) of the firm and greater levels of effort will be given by board directors.

The results indicate that the higher the level of independence, the higher the level of effort of board directors. Accordingly, Public Entities may consider improving the levels of independence and number of independent directors in order to improve the level effort norms of board directors.

6.2.2 The association between director independence and the level of cognitive conflict

Hypothesis 2: There is a positive relationship between director independence and level of cognitive conflict displayed by public entity boards.

Hypothesis 2 postulated a statistically significant relationship between director independence and the level of cognitive conflict of the board.

Studies by Jehn (1995) considered cognitive conflict as disagreements about the content concerning the tasks being performed. Amason (1996) proposed that it involves the use of processes involving critical and investigative interaction. Critical investigation has the potential of discovering flawed assumptions in management's plans. Generally, cognitive conflict has been found to increase the number of alternative and creative

solutions considered by small groups (Eisenhardt et al., 1997; Jackson, 1992; Milliken and Vollrath, 1991). A Board culture that promotes cognitive conflict has the potential to influence decision quality in the boardroom. The above scholars advocate to advance a more sophisticated view of factors that impact a board's decision scope and quality, such as board culture and cognitive conflict. (Schweiger & Sandberg, 1989; Schwenk, 1990) agreed that cognitive conflict improves decision quality because the synthesis that emerges from the conflict is generally superior to the individual perspectives themselves.

Jehn, Northcraft and Neale (1999) defined process conflict as the awareness of controversies about aspects of how task accomplishment will proceed, such as who should do what and how much responsibility different people should get. For instance, when group members disagree about whose responsibility it is to complete a specific duty, they are experiencing process conflict.

O'Reilly, Caldwell and Barnett (1989), Guth and MacMillan (1986) and (Isbella and Waddock, 1994) state that the generation of ideas is negatively associated with social integration and consensus in groups. The principle of cohesion and cooperation consequently, leads to higher pressure for conformity, limiting the quality of both alternative generation and evaluation of decisions. These scholars argue that the effectiveness of strategic decision roles is positively related to social integration and consensus. These scholars recognise the dichotomy of cohesiveness (cooperation and identify) and cognitive conflict to enhance decision making. Isbella and Waddock (1994) claim that consensus can create more feelings of satisfaction with the decision-making process, giving rise to greater decision acceptance and commitment.

The results indicate that the higher the level of independence, the higher the level of cognitive conflict of board directors. By implication the independent directors are free from conflict of interest and are receptive to exploring diverse options and alternatives. Accordingly, Public Entities may consider improving the levels of independence and number of independent directors in order to improve the level of cognitive conflict at board level. With a board culture that encourages diverse

thinking (cognitive conflict) the best alternatives and options are explored which will consequentially improve board decision quality.

6.2.3 The association between director independence and the usage of knowledge and skills

Hypothesis 3: There is a positive relationship between director independence and usage of knowledge and skills by public entity boards.

Hypothesis 3 postulated a statistically significant relationship between director independence and the use of knowledge and skills.

Studies by Zajac and Bazerman (1991) argued that director's varied knowledge domains thereby reduce the risk of competitive blind spots. Further directors with diverse functional area knowledge increase the overall cognitive capacity of the board and decision quality. Directors' varied knowledge domains thereby reduce the risk of competitive blind spots (Zajac and Bazerman, 1991). Directors categorize information they receive and create links to pre-existing knowledge areas and beliefs, and use these links to conceive actions and consequences. Directors with diverse functional area knowledge increase the overall cognitive capacity of a board. Thus, functional area knowledge is critical to both the scope and the ultimate quality of directors' decision-making.

The results indicate that the higher the level of independence, the higher the level of cognitive capacity of board directors. By implication the independent directors are free from conflict of interest and are receptive to exploring diverse options and alternatives. Scholars advocate that Well-balanced boards in terms of varied backgrounds, experiences, and perspectives of directors (Blair, 1950; Copeland and Towl, 1947; Forbes and Milliken, 1999; Koontz, 1967; Norburn, 1986; Salmon, 1993) improve company performance. This finding also suggests boards of directors should be viewed as intellectual assets of a corporation. To cope with complexity and uncertainty, directors develop perceptual filters and dominant logics (Prahalad and Bettis, 1986) that correspond to their experiences as leaders of their own

organizations and as directors of other organizations. Together, directors scan larger volumes of environmental and organisational data and view the data through multiple perspectives and logic. Directors' varied knowledge domains thereby reduce the risk of competitive blind spots (Zajac and Bazerman, 1991).

Accordingly, Public Entities may consider improving the levels of independence and number of independent directors in order to improve the level of cognitive capacity at board level. Directors' varied knowledge domains thereby reduce the risk of competitive blind spots (Zajac and Bazerman, 1991).

6.2.4 The association between director independence and information quality

Hypothesis 4: There is a positive relationship between director independence and the level of information quality used to make board decisions.

Information quality is one construct that has received surprisingly little attention in the literature on boards of directors. As directors spend both limited and intermittent time preparing for board meetings, the quality of information provided to board members should have a significant impact on decision quality. What are the attributes of quality information provided to board members? Are there individual differences that affect information quality and decision outcomes? What types of information are most important in a board's decision making process? Does it matter whether board information is externally or internally focused, operational, or financial in nature, risk-based, or market-based, forward or backward looking, textual or visual, etc? How timely is timely as it relates to making board decisions? How much information is too much?

The results indicate that the higher the level of independence, the higher the level of information quality of board directors. By implication the independent directors have less information about company related information and are therefore very reliant on receiving quality information on particular issues for assessment and to reach a quality decision. If independent directors do not have quality information (accessibility, adequacy, sufficiency, relevancy, .timely, reliable and

objective) they are unable to apply their cognitive capacity to evaluate the information and reach a decision. If the information is deficient it compromises board decision quality. Accordingly, Public Entities may consider improving the levels of information quality to independent directors because they have limited exposure to the organisation issues and would need high quality information.

6.2.5 The association between the director independence and board decision quality

Hypothesis 5: There is a positive relationship between independence and board decision quality

Despite several decades of research designed to link the relationship between board structure and company performance. The results of these studies are inconclusive and contradictory (Daily and Dalton, 1999). Scholars like Heracleous (2001; Johnson, Daily & Ellstrand, (1996) and Zahra and Pearce (1989) agreed that there is a mixed relationship between board structure and board performance (for review, see). Further Johnson, Daily and Ellstrand (1996) argued the same that the relationship between board structure and financial performance might not exist at all. Or, if there is a relationship, their magnitude may not be of practical significance. Kesner and Johnson (1990) suggested that, the board is probably not an important, direct determinant of firm performance. The reason is that boards are not involved in daily decision-making. Phan (1998) and Buchanan and Huczynski (1997) claimed that board structure is as important as board process.

The reason for the lack of direct relationship between board structure and firm performance is attributable to the intervening board process. Finkelstein and Hambrick (1996) and Heracleous (1999, 2001) noted that a reason why board structure is unlikely to have universal impact on firm performance is that there are too many intervening processes to expect a strong direct association. The mixed results could be due to both methodological and conceptual issues, such as lack of attention to group dynamics, high complexity of processes, variations in measurements of board attributes and

performance. Johnson, Daily and Ellstrand (1996) concluded that since there is little consistency between board structure and firm performance, researchers should inspect the process by which boards may affect company results instead.

The results indicate that the higher the level of independence, the higher the level higher the level of board decision quality. Independent directors are free from conflict of interest and are more likely to act in the interest of the organisation and all its stakeholders. By implication the independent directors are more willing to explore diverse options and alternatives. Accordingly, Public Entities may consider improving the levels of independence and number of independent directors in order to improve the level board decision quality.

6.2.6 The association between board process variables and board decision quality

Hypothesis 6: There is a relationship between board process variables and board quality decision

Hypothesis 6 postulated a statistically significant relationship between board decision quality and board process variables (knowledge & skills, information quality and effort norms) As the results in the table 5.16 show the coefficient of board decision quality and board process variables is 0.33 (knowledge and skills), 0.28 (information quality) and 1.79 (effort norms). It appears that the direction of the relationship changes when the variables are put together they improve board decision quality. The F-test shows that there is a significant and negative relationship ($F = 26.17, p < .01$) between the dependent variable (board decision quality) and the independent variable (board process variables), thus supporting the hypothesis.

6.3 CONCLUSION ABOUT THE RESEARCH QUESTIONS

As was indicated in Chapters 1 and 3, this thesis sought to address one main research questions and four sub-questions

How and why should public entities achieve board decision quality to optimise performance and become sustainable?

Sub-questions

- What are the factors that affect board decision quality?
- What is the strength and direction of the relationship between board decision quality and board activism?
- Does board decision quality mediate the relationship between effort norms, functional area knowledge and cognitive conflict and board activism?
- What effect does the three variables have an effect on board activism?

6.3.1 Addressing Research Question 1

Review of board structure and board process literature discloses a variety of hypothesised relationships of the variables, functional area knowledge, effort norms, board independence, board activism, cognitive conflict and cohesiveness. For example, Scarborough, Haynie, Shook (2010) found empirical support for the positive relationship between functional area knowledge and board activism; a strong link between effort norms and board activism and failed to find a consistent and practically significant relationship between board attributes and firm performance. This finding of this study steered the researcher to explore the antecedents of board decision quality; further to explore the relationship between director independence and level of effort norms (*hypothesis 1*); relationship between director independence and level of cognitive conflict (*hypothesis 2*); director independence and usage of knowledge and skills (*hypothesis 3*); director decision and the level of information quality (*hypothesis 4*); independence and board quality decision (*hypothesis 5*) and board process variables and board quality decision (*hypothesis 6*).

While there were studies that linked board process variables directly to board decision quality (Scarborough, Haynie and Shook, 2010; Wan and Ong, 2001) this research predicted that process variables impact board decision quality, they would tend to

exhibit increased commitment to their organisations (Hypothesis 6). The hypothesis was derived from work done by Scarborough, Haynie and Shook (2010). As discussed earlier hypothesis 6 was confirmed. The performance of the individual variables improve when lumped together to test the model with higher scoring.

Literature revealed that effort norms, cognitive conflict, knowledge\skills, information quality and director independence have a positive association with board performance and board activism (Scarborough, Haynie Shook, 2010; Zona and Zattoni, 2007; Sonnenfeld , 2002; Wan and Ong, 2001; Forbes and Milliken 1999) as predicted in Hypotheses 1, 2, 3, 4 and 5. These hypotheses were confirmed as discussed earlier.

Personal interviews were conducted as another measure to identify additional variables that were thought to have an impact on board decision quality. The analysis of the interviews resulted in the incorporation of two variables in the board decision quality model: information quality, and cognitive conflict. The variables were predicted to affect board decision quality indirectly via director independence variable (see Hypotheses 2, and 4).

6.3.2 Addressing Research Question 2

The variables defining board process, knowledge\skills, effort norms, and information quality interrelate to provide explanation of board decision quality as illustrated in figure 5.1. The model in figure 5.1 illustrates that board process variables has a direct impact on board decision quality, in which, effort norms has the strongest relationship in the model. The board process variables (effort norms, knowledge\skills, and information quality) have a direct impact on board decision quality.

The model also shows that the board process variables are intervening variables between board structure and board decision quality. Effort norms, information quality, director independence and functional knowledge are antecedents of board decision quality. The variable, cognitive conflict is not included in the model as an antecedent of board decision quality. Although the information quality relationship was statistically insignificant it was included in the model again to improve model parsimony. Tenure

was also found to have an indirect link to intention to quit, via the organisational commitment variable.

6.3.3 Addressing Research Question 3

The model (figure 5.1) illustrates that besides effort norms, director independence has the most predictive power across all process variables and board decision quality (beta coefficient ranging between -.016 and 0.33) compared to other variables that are directly linked to board decision quality. The results also show that variables in the model, are strong predictors of board decision quality. Effort norms are the strongest predictor of board decision quality (beta coefficient = 1.79), followed by knowledge\skills (beta coefficient = -.33) and information quality (beta coefficient = .28). The process variables, effort norms, knowledge\skills and information quality indirectly influence board decision quality

6.4 IMPLICATIONS FOR PRACTICE - RECOMMENDATIONS

Poor board decision quality results in poor performance of the board and consequentially poor company performance. The intervening variables, board process variables impact decision quality. Without measuring, developing tools, techniques and paying attention to process variables can result in low decision quality. An inability to respond timeously to the external environment as a result of insufficiency of knowledge\skills, low effort and low information quality result in poor performance and a loss of market share.

The Auditor General Report (2013) found that of the 2011-12 audit results of the national and provincial government of 536 entities, only 22%, or 117, received clean audit opinions. The report identified stagnation, regression in audit opinions and a lack of leadership to address findings from previous years. The qualified audits was largely attributed to poor governance practices in the areas of supply-chain management, human resources, information technology systems and accuracy of reporting.

6.4.1 Black listing irresponsible directors

With the deterioration of governance practices over the past five years there is a need to take drastic action or punitive measures against directors that neglect or do not executive their fiduciary responsibilities. Negative sanctions for board directors may deter some of the poor governance practices that continue to evade the public sector. The corruption perception index for 2013/4 (69 out of 176 countries) and the competitiveness rating for 2013/4 (53rd of 176 countries) require improvement in governance practices. The findings reinforce a need to implement a black listing register for directors for deliberate poor governance practices. Especially as it relates to conflict of interest, practices of fraud and gross negligence and dereliction of duty.

6.4.2 Development of Board Decision Quality Strategy

Solutions to improve decision making require an emphasis on continuous improvement, total quality management and creating a learning board culture. This would also require board directors to be held accountable for executing fiduciary responsibilities diligently. Given the impact poor decision quality has on an organisation's bottom line, it is advisable to establish a "monitoring process of the ROI of decisions" within public sector entities. The focus of this process would be to continually evaluate the responsiveness of the board to emergent issues and the consequences taken to remedy and restore alignment between the organisation and the strategic issues the organisation is influenced by. The board decision quality strategy is attained through a focus on continuous improvement, reflective practice, TQM and creation of learning board culture.

6.4.3 Continuous improvement, reflection practice, and creation of a learning board culture

- **Continuous improvement processes**

Board of the twenty-first century should strongly emphasise quality and productivity in their decision processes and in the product and services offerings. The message for organisations is clear: change or face elimination. Creating tools and techniques

to monitor decisions and return on investment. For example, analysis of the types of decisions that are taken, sufficiency, adequacy and reliability of information and the decision process culminates in improvement in board practices. In addition, for agenda items that require further investigation and research should be delegated to a sub-committee of the board for developed a full proposal for consideration by the board. Generally information quality must be monitored to assess if information provided to the board is timely, sufficient, reliable, valid, adequate, concise, objective, accessible, relevant, understandable and valuable. The presentation, format and style of the information can be modified to determine the best format for the purpose.

The practice of round robin discussion and decision practice must be reviewed to assess its success.

- **Total quality management**

TQM is the management of activities that involve improving the quality of the organisation's process, product or service. It is an organisational strategy that is committed to improving customer satisfaction by developing techniques to carefully manage output quality. The board must review process and ensure that all aspect of board functioning and behaviour is aligned to quality practices.

A TQM philosophy requires top management support, TM practices by leadership, partnership with customers and suppliers and developing a distinctive quality competence and capability.

- **The board as a High performance system**

In accordance with the high performance system boards must avoid external control and produces its own standards. The board decision process must provide exemplary governance practise to all stakeholders of the organisation. The board must be open to new methods, inventions and developments in the external environment. Cognitive conflict should be encouraged to cultivate diverse thinking and the best possible alternatives.

- **A learning board culture**

The characteristics of a learning organisation relates to constant readiness to respond to external factors and competitor forces; continuous planning, improvised planning, flexible systems and action learning. This thinking can be expended to the functioning and processes of the board. The board must develop a continuing capacity to adapt and change. Board directors must be conscious of how they think and interact, and begin developing capacities to think and interact differently.

6.4.4 Director orientation, evaluation and effort norms

A comprehensive orientation and induction policy for directors must be implemented. New director orientation provides another opportunity to reinforce or enhance existing effort norms. The objective was to provide a written role of the roles and responsibilities of board members. The traditional role and responsibilities document is extended to cover definitions of conflict of interest, the manner in which potential conflicts are disclosed and ethical dilemmas are identified. Further, reviewing the standard board book and highlighting key operational and financial drivers are important topics at new director orientation sessions. The expected effort is given both quantitatively and qualitatively, in terms of key performance areas and key performance indicators.

A comprehensive evaluation procedure and process is necessary to manage performance. An active and effective board member evaluation process can also serve to reinforce or strengthen effort norms. Increased effort norms result in increased attention to board process and improved decision quality. An evaluation system provides constructive feedback about whether a director's level of effort and contribution to board governance is acceptable, or it can serve as the basis for a decision not to re elect a director. In short, there are several ways boards can establish or enhance effort norms, and this study finds that strengthening effort norms increases board activism.

6.4.5 Effort norms and motivation

In accordance with agency theory directors are given remunerative benefits to align the director's behaviour to the strategic objectives of the organisation. Little is known about director's motivation. Likewise, there is a need to understand what the antecedents of

directors' motivation. A determination of whether higher director compensation and share options lead to more effort exerted on board activity. A number of questions remain unanswered in terms of are retired executives more motivated than current executives and what are the antecedents to strong board effort norms?

Director motivation could relate to self-actualisation, create a legacy of success, and contribute to the success and development of the organisation, and the prestige or access to particular business and social networks.

6.4.6 Knowledge/skills and expert counsel

The literature makes a distinction of use of knowledge\skills, management cognitions, expertise, firm specific knowledge and functional area knowledge. Based on these distinctions firms must adapt and refine the recruitment and selection tools and criteria in the selection of board of directors to assess level of functional knowledge, skills\knowledge, expertise and management cognitions. In this regard Dulewicz, MacMillan and Herbert (1995) identified 37 skills required of directors and subsequently researchers further divided the required competencies into 6 groups.

Entities have to formulate and choose strategies that will enable the organisation to effectively align its capabilities and resources with the organisation's long-term objectives, and reconcile them with existing as well as potential opportunities and threats in the dynamic external business environment. The cognitive capacity of the board is increased by the diverse functional area. Further there it is recognition that both the scope and the ultimate quality of directors' knowledge and skills result in board decision quality. Director knowledge/skills is a resource strength, distinctive capability and competence is something the company is exceptional at doing, or some attribute that enhances its competitiveness in the industry/market. These resource strengths are often critically important assets and determinants of the company's competitiveness and ability to succeed in the marketplace.

Directors' varied knowledge domains thereby reduce the risk of competitive blind spots (Zajac and Bazerman, 1991). Directors categorize information they receive and create

links to pre-existing knowledge areas and beliefs, and use these links to conceive actions and consequences

A board of directors, however, is comprised of directors who bring multiple perceptual filters and dominant logics to the governance of a corporation. It is the diversity of these perspectives and the degree to which they match the cognitive demands of a particular corporation that increase board activism. However, the board cognitive ability is not static and will vary based on changes in the external environment or changes the board structure. If there is a gap in knowledge or skills or even if more objective views or opinions are needed the board should rely on the experts to provide support to the board. An assessment of the changes to cognitive ability of the board should be done to ensure that the cognitive capacity matches the cognitive demands of a corporation's business environment.

6.4.7 Board independence

The level of independence of the directors must be assessed to ensure that they are truly independent. Independent directors could still be familiar with the other directors or the organisation through social networks. The antecedents of independence must be determined.

6.4.8 Board process and board decision quality: interplay between sub-committee and board

A number of studies examine the effectiveness of the work performed by committees within the board. This research stream led to results that are similar to those obtained by studies which concentrate on the general board, maintaining that independence, diligence and expertise are also important at the subgroup (committee) level. While there is vast research that examines the work of the board as a whole as well as the work of each committee in isolation, little is known about the interplay between different committees.

6.5 LIMITATIONS OF THE RESEARCH

5.5 Limitations and recommendations for future studies

The limitations and recommendations for future studies are presented under two separate sub-headings.

6.5.1 Limitations

The primary limitation of the study was the sample. In this research, data was collected from a purposive sample of Schedule 1, 2 and 3 public entities, 104 board members. It is, therefore, difficult to generalise within the public sector, and it would be irresponsible to generalise outside the sector.

A second limitation is with regards to the measuring instrument itself. Although the measure has high validity and reliability, it can be observed that questionnaire was used primarily in the study of profit making entities. This may suggest that applying the measure to the public sector may not adequately recognise the peculiarities of the public sector entities. Caution is thus advised.

6.5.2 Recommendations for future studies

- As this research was conducted from 104 board directors in the public sector, it is suggested that including more board directors in future researches will be beneficial. This approach will result in wider generalisability within the industry.
- A second recommendation would be to investigate and fully exhaust all the variables that influence board decision quality. Future board researchers should focus on directors' functional area knowledge and deeply explore the variable managerial cognitions. Another angle is that insider director is privy to more information and knowledge of the issue than outsiders. This discrepancy of uneven knowledge by insider\outsider directors affects decision quality
- Board researchers should fully explore the antecedents of board decision quality amongst the variables identified by the study, functional area knowledge, effort norms and information quality. Other dimensions that could be explored further is board culture that could emanate from the board process variables (cognitive

conflict, functional area knowledge, cognitive conflict, information quality, cohesion and board independence).

- Cohesiveness and cognitive conflict are essential to improve decision quality. Much of the normative literature points to the importance of board activities that build group cohesion as being vitally important to healthy board relationships. Board events like board dinners, team building and board trips to visit plant sites aim to build group cohesion, sustain cognitive conflict and positively influence decision quality. It will also be important to explore the impact of cohesiveness and cognitive conflict to board culture.
- In the extant literature of board of director information quality receives surprisingly little attention. The nature of board preparation is limited and at least intermittent, the quality of information impact on the adequacy of preparation. The sufficiency, adequacy, currency, completeness and timeliness of information impact on decision quality. Board decision may either be delayed or deferred to a later date as a result of a lack of information quality. Very little is known about information quality to boards and a range of questions need to be answered. What are the antecedents of quality information provided to board members? Are there individual differences that affect information quality and decision outcomes? What types of information are most important in a board's decision making process? Does it matter whether board information is externally or internally focused, operational, or financial in nature, risk-based, or market-based, forward or backward looking, textual or visual, etc? How timely is timely as it relates to making board decisions? How much information is too much? These research questions are rich opportunities for future board research.
- Likewise, future board researchers should build on this study's findings regarding directors' effort norms and explore the salient antecedents of directors' motivation. Additional information is required to understand what motivates directors to exert more effort and activate board activism and improve decision quality. It is necessary to plunge deeper into fully understanding the construct motivation and to understand individual and collective motivation. Does higher board compensation attract and retain more highly motivated board members? Do director stock options motivate

board members to dedicate more time to board service? Are retired executives more motivated than current executives? What are the antecedents to strong board effort norms?

- Future board researchers should plunge into investigating firstly the measures for independence. Research into the measures of independence because it is assumed that independence related to individuals that do not own shares or the individual is not employed with the organisation. Are there other criteria that require application to assess the level of independence? Especially, in the Public Sector are appointed primarily on political affiliation and particular mandates.
- Board research could also focus on look at independence from the perspective cognitive conflict, and cohesiveness.
- Boardroom behaviour is also very important. Future researchers can observe and study boardroom behaviour by actually attending the board meetings.
- Eradicating some limitations mentioned in the previous section above would be the first and most appropriate place to begin future research.

6.5.3 Practical significance

- For example, further research is required to develop an impact assessment review of key decisions over a period of six months to a year. An assessment rubric to guide the review of key decisions is developed. Some of the criteria to be used in the assessment is the type of decision, decision impact, effects and lessons drawn. The tested instrument can be used practically by boards in the reflective process to improve board decision quality and consequentially result in board development.
- Different companies can have different board compositions that are appropriate. Further studies can be taken up to see which board composition is suitable for different companies which are in different stages of the life cycle (starters, fast growth, mature, etc). Besides composition, other factors like number of meetings, the time for which they last, the attendance records of independent directors, the

number of agenda items in the board meeting, etc., are also important and can be included in the future studies.

- Strong substitution effects are present amongst the various aspects of governance conduct. Substitution between monitoring by the outside directors and the large shareholders, as well as monitoring by the inside directors in determining the performance can be studied.

A second limitation of this study is findings are generalizable only to publicly sector entities that have boards (Schedule 1, 2 & 3). This may imply results are generalizable only to South African public sector entities with more sophisticated commitments to board governance, as evidenced by their commitment to membership in an organization dedicated to improving board governance.

A final limitation is common source bias. The use of board directors and company secretaries as the only source of data may have inflated the results found here. Future research should attempt to overcome this limitation and the others discussed here by implementing this study in a new sample.

6.6 Chapter summary

In this chapter, the results were discussed, and conclusions were drawn. Some recommendations were also presented. From this, it was evident that the measure may be valuable for use in the financial industry. As all the research goals were achieved, this concludes the study. In the following pages, the references are presented as well as the annexures.

From the literature review eight variables that were thought to influence board activism and board decision quality in Public Entities were identified. These variables include, namely, board structure variables, board independence, five board process related variables including, effort norms, functional area knowledge, cognitive conflict, cohesiveness, information quality, and two board outcomes variables, namely, board

activism and board decision quality. Studies covering all the eight variables, meanings, definitions, linkages and associations were identified. The variables were specified into causal connections to form the hypothesised relationships.

The orientation of chapter 2 was to demonstrate that all the hypothesised relationships were conceptually derived the first requirement for model development. At the end of Chapter 2 a model was provided that illustrated how the hypothesised relationships were integrated to explain board decision quality was proposed.

The operationalisation of variables was covered in chapter 1, the development of a conceptual framework in chapter 2 that influenced the research design and sampling plan in chapter 3. Operationalisation of the variables is achieved through the research problem, significance of the study, research questions, and problem statement.

Different data sources were used to build the model. Figure 4.2 gave a synopsis of the different data sources and the methodologies used to acquire the data. As has already been mentioned, the research was carried out in two stages. First, the research involved an exploratory study to determine the factors that influence board decision quality in Public Entities in South Africa. This process involved in-depth interviews and focus group interviews in order to gain insight and identify variables that were public sector specific and not covered in the literature. The data from the interviews with board members were structured and organised thematically to yield information with regards to the factors that influence board decision quality.

The first stage of the research was also concerned with case study selection. Additional information about case study organisations, Public Entities was gathered and used to determine defining characteristics of the cases. In the second stage of the research, an electronic survey was used to gather data from 289 Public Entities (Schedule 1, 2 and 3) in 4 case study organisations so that the model proposed in Chapter 2 could be tested.

Chapter 3 dealt with the operational definition of variables and constructs of proposed relationships in the model. The nature and the direction of the hypothesised relationships as illustrated in figure 3.4. The reliability of the constructs was examined.

The nature of the research questions presented in Chapter 1 and 3 and the methodological procedures used for collecting data (qualitative and quantitative) are evidence that this study, in its attempt to develop theory, spans the two philosophical paradigm. Expanding this thinking, the study has adopted both the phenomenological and positivist approaches in order to offset the limitations of any one approach. The presentation of results in different research phases demonstrates this.

With the methodological issues dealt with, Chapter 5 presented the results of both the first phase of the research. At the end of Chapter 4 a cross-case analysis was presented that examined how the four case study organisations varied in terms of board process variables, board activism and board decision quality.

The results of the second stage of the research were presented in Chapters 5. In this Chapter the hypothesised relationships in the proposed model were tested. This allowed a comparison between theory and the real world to occur. Because of this, it was easy to determine whether the data corresponded to the real life situation.

In the foregoing paragraphs, the link between the Chapters has been provided. The rest of this Chapter is concerned with the discussion relating to conclusions about the hypotheses and the research questions. This Chapter also seeks to relate the theory with findings reported in Chapters 4, 5 and 6. Section 6.2 presents the conclusion for each hypothesis. The conclusions about the research questions are presented in section 6.3.

In agreement with this thinking the implications of this study for practitioners together with a list of recommendations for refining and improving board decision quality practice are provided in section 6.4. Finally, sections 6.5 and 6.6 deal with the limitations of the study and future areas of research respectively.

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APPENDIX A: PARTICIPANT CONSENT FORM

INFORMED CONSENT

I hereby agree to participate in the research on the role of internal branding in creating sustainable competitive advantage, from the employee’s perspective. I understand that **my participation is voluntary**. I also understand that I can stop participating at any point should I not want to continue and that this decision will not in any way affect me and the organization negatively.

I understand that this is a research project whose purpose is not necessarily to benefit me personally in the immediate or short term.

I understand that my participation will remain confidential.

.....

Signature of participant

.....

Date

ANNEXURE B

The Privacy, Anonymity and Confidentiality Pledge

Every person has the right to privacy. This research will violate privacy only to the minimum degree necessary and only for legitimate research purposes.

I, the researcher will protect all the information from you the research participants from public disclosure.

The information from the respondents will only be used for the research and not for any other purposes.

I, the researcher, will use codes to protect the identity of all the respondents and the business.

You can at any stage in this research refuse to be interviewed or to answer any question.

You, as the respondent, will remain anonymous and nameless in all the documentation of this research.

I, the researcher, will hold the information about you the respondent in confidence and keep it away from the public

Even as the details of the case are given, you the respondent's identity and the business's identity is protected and remains unknown to the readers of the case.

Yours Sincerely,

Shamila Singh

Researcher

ANNEXURE C: BOARD DECISION QUALITY SURVEY

05 November 2012

Dear Research Participant,

I am conducting research on the process of board decision quality and its relationship to effort norms and board activism.

Kindly assist in the research by filling in the attached questionnaire. All responses will be strictly confidential and data will be presented only in an aggregate and responses will not be attributed to a particular respondent.

Completed questionnaires should be kindly returned by the end of the workshop. For any enquiries relating to the questionnaire, please contact the researcher, Shamila Singh on +27823791908 or at shamila.singh1@gmail.com.

Sincerely,

Shamila Singh

Doctoral Student

School of Business Leadership, UNISA

South Africa

To the respondents

Thank you very much for your willingness to join this survey. This survey is being conducted for research purposes of a doctoral degree on board decision quality with a view to understanding corporate governance practices across State-owned enterprises in South Africa. The survey is asking questions on the practices in your firm, regardless of the laws and regulations. Your accurate and frank response is key. The results will be used only for research purposes and be presented only in aggregate without being revealed by individual entity

To be answered by the company secretary or any officer in charge of governance matters (shareholder relations, public disclosure, assisting outside directors, etc.)

Please check (√) the appropriate parentheses or express the extent to which you agree or disagree on the given statement by choosing (circling) one of the following:

5 = strongly agree

4 = agree

3 = Not sure

2 = disagree

1 strongly disagree

Research Questionnaire

Please tick the appropriate box:

Gender

Male

Female

Age

21 - 30

31 - 40

41 - 50

51 - 60

60 - 65

65 and above

Highest Qualification

Nil	Diploma	Bachelors Degree	Masters Degree	Doctoral Degree
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Number of years with your Institution

Less than 1 year	1-2 years	3-5 years	6-10 years	11 years and above
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Your employer

Business Owner	Non-government	Private Company	Government	Public Entity
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V

Indicate by ticking which types of board sub-committees exist in your organisation

	Remunerations Committee
	Audit Committee
	Risk Committee
	Ethics Committee
	IT Governance Committee

Other (please indicate) _____

Nature of board member: current participation previous participation

On average how many times does the board meet per annum: _____?

Your position in the company _____

Executive Non-executive

INSTRUCTIONS

Kindly follow the below mentioned instructions to complete the mini-survey below.

**Indicate the extent to which you agree with the following statements by ticking the appropriate box:*

**Kindly indicate the extent to which this is important to the decision making process*

Corporate Governance Questionnaire

Board Activism is defined as a measure of the scope of a board's activities and the degree to which a board is involved in the affairs of the organisation (Zahra and Pearce, 1987).

Please rate the extent to which board members as a group perform each of the board activities listed below:

1. Attend board meetings	1	2	3	4	5
2. Attend committee meetings	1	2	3	4	5
3. Read board reports prior to meetings	1	2	3	4	5
4. Advise and counsel the CEO outside of board meetings	1	2	3	4	5
5. Formally evaluate the CEO's performance on a periodic basis	1	2	3	4	5
6. Discuss management succession planning	1	2	3	4	5
7. Request specific information not normally included in board reports	1	2	3	4	5
8. Determine or request specific agenda topics for board meetings	1	2	3	4	5
Ask discerning questions during board or committee meetings about					
9.1 Financial results and reasons for variances	1	2	3	4	5
9.2 Operating results and reasons for variances	1	2	3	4	5
9.3 Firm strategy or its business model	1	2	3	4	5
9.4 Proposed mergers or acquisitions	1	2	3	4	5
9.5 Internal control strengths and weaknesses	1	2	3	4	5
9.6 Human capital issues	1	2	3	4	5
9.7 Corporate culture and ethical conduct					

Use of skills and expertise: The use of expertise "refers to the board's ability to tap the knowledge and skills available to it and then apply them to its tasks" (Forbes and Milliken, 1999: 495)

10. All members of this board apply their skills and capabilities to assure the	1	2	4	4	5
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greatest contribution to the tasks of the board					
11. The company's executives actively seek to involve the board members in key strategic processes and decisions	1	2	3	4	5
12. Committee assignments are made with the intention of ensuring the best use for each director's skills and capabilities	1	2	3	4	5
13. During board discussions the most knowledgeable members of the board, regarding the subject area under discussion, generally have the most influence	1	2	3	4	5
14. All board members have a good understanding of the skills and capabilities of the other board members	1	2	3	4	5
15. The board consults outside experts as and when needed	1	2	3	4	5
16. The board is confident in identifying risks	1	2	3	4	5
17. The knowledge and skills of board members are updated	1	2	3	4	5

Cognitive conflict: "Disagreement about the content of the tasks being performed, including differences in viewpoints, ideas and opinions." (Jehn, 1995: 258 & McNulty and Peck, 2010)

18. All board and executive team members have ample opportunity to constructively challenge and debate decision brought to the board	1	2	3	4	5
19. The culture within the board room encourages board members to express their disagreements and concerns when issues are presented to the board	1	2	3	4	5
20. Board member deliberations are based upon a healthy discussion of facts	1	2	3	4	5
21. The board is able to reach collectively shared decisions following a full and frank debate	1	2	3	4	5
22. All board members have ample opportunity to influence the decisions made by the board	1	2	3	4	5
23. During board meetings, the board chair creates an environment where all board members are comfortable expressing their opinions without fear of retribution or embarrassment.	1	2	3	4	5
24. Discussions are open and candid	1	2	3	4	5
25. There is personality clashes among directors	1	2	3	4	5

26. Relationships among members are best described as "win-lose"	1	2	3	4	5
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Effort Norms are a group level construct that refers to the group's shared beliefs regarding the level of effort each individual is expected to put towards a task" (Forbes and Milliken, 1999: 493)

To what extent does the board clearly communicate to its members that all directors are expected to do the following:

27. Carefully scrutinise board information prior to meetings	1	2	3	4	5
28. Research important issues relevant to the company	1	2	3	4	5
29. Takes notes during meetings	1	2	3	4	5
30. Participate actively during meetings	1	2	3	4	5
31. Invest whatever time is necessary to become an informed and active board member	1	2	3	4	5
32. Question management or other board members when necessary	1	2	3	4	5
33. The decisions taken at the board meetings are based on research, factual information and much debate and discussion	1	2	3	4	5

Effective decision control depends on whether directors are **independent** of executive management (Fama, 1980; Young et al., 2000)

Board Independence

34. Do you believe "independent directors" of your company are truly independent from the CEO or controlling shareholders?	1	2	3	4	5
35. What do you think about the following reasons for "independent directors' not being fully independent from the CEO or the controlling owner?	1	2	3	4	5
35.1. Because the CEO has effectively selected the board members	1	2	3	4	5
35.2 Because of concern over personal relationships with other directors	1	2	3	4	5
35.3 Because openly objecting to the management-proposed agenda is viewed as an act contrary to behavioural norm	1	2	3	4	5
35.4 Because the CEO will decide the extension or termination of the directorship	1	2	3	4	5
35.5 Because of the concern of possible responsibility/blame when their views turn out to be wrong in the future	1	2	3	4	5
35.6 Because the CEO and management team are supposed to be better informed	1	2	3	4	5

on most issues and have better judgment					
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Information quality is the board's ability to provide meaningful oversight and useful advice is determined by the quality, timeliness and credibility of the information it has (Thomas, Schrage, Bellin and Marcotte, 2009)

36. Data to make decisions is available or easily and quickly retrievable (accessibility)	1	2	3	4	5
37. The volume of data is appropriate, applicable and helpful for the task at hand (relevancy).	1	2	3	4	5
38. The data is not missing and is of sufficient breadth and depth for the task at hand.	1	2	3	4	5
39. The extent to which data is compactly (concisely) represented.	1	2	3	4	5
40. The extent to which data is regarded as true, credible and reliable (objectivity)	1	2	3	4	5
41. The extent to which information is available in time to perform the task at hand (timeliness).	1	2	3	4	5
42. The extent to which data is easily comprehended (understandability).	1	2	3	4	5
43. The extent to which data is beneficial and provides advantages from its use (value-add)	1	2	3	4	5

