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The Independent Director on the Board of Company Directors

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63**

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I**

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Abstract

This paper examines the views of directors of public listed Australian companies regarding the role of the independent director and the significance of that role in relationship to the composition of the Board of Company Directors (BOCD). The preferred model for board composition in Australian public listed companies is that of a majority of Non-Executive Directors. Whilst this model is promoted in Australia there is conflicting evidence surrounding the claim that a majority of independent members in the board structure contributes to high levels of performance.

The data reported were collected in qualitative research which examined the perceptions of governance practice held by a group of Australian company directors holding positions on boards of public listed companies between 1997 and 2000. The research is looking at directors' perceptions of how and why independent directors contribute to board performance. The analysis indicates that participating directors were convinced that a majority of Non-Executive Directors provided a safeguard for a balance of power in the board/management relationship. The difference between Non-Executive Directors, who are also independent directors, and Non-Executive Directors who are not independent, was an important distinction which was highlighted. The capacity for board members to think independently was seen to be enhanced, but not necessarily ensured, with majority membership of Non-Executive Directors. However, a majority of independent minds expressing multiple points of view was perceived to reduce the board room hazard of 'group think'.

Key words:

Non-executive directors; independent company directors; board performance; Boards of Company Directors; company board composition; company director integrity.

Introduction

The article reports qualitative research which examines the perceptions of governance practice held by a group of company directors holding positions on boards of Australian public listed companies between 1997 and 2000. This paper looks at the views of participating directors regarding the role of the independent director and the significance of that role in relationship to the composition of the Board of Company Directors (BOCD).

The paper is organized as follows. The research objectives and methodology are briefly outlined. A profile of the directors participating in the research is accompanied by a set of descriptions for various types of directors that make up the membership of a BOCD. The remaining sections of the paper are derived from significant categories of interview data that provided the views held by participating directors when discussing the role of the independent director. The significance of the independent director is examined, followed by a discussion that focuses on the ways in which independence is demonstrated on BOCDs. Directors' responsibilities to shareholders and their availability for attending to board duties are also discussed. The final section examines the directors' views on the selection of independent directors.

Quotes from interviews are used throughout the paper. Discussions are based on the views of the participating directors. The convention adopted for acknowledging extracts from interviews (...) is adhered to throughout the paper.

Research Design

The research was part of a study of 'best practice corporate governance'. The research involved interviews with directors of Australian public listed companies and funds management executives. The following assumptions underpin the study;

- there is no single, universal theory of organisational structure to inform Corporate Governance models (Charkham 1995);
- models of Corporate Governance adapt to context (Van den Berghe & De Ridder 1999), and occur within a prevailing legal framework (Wymeersch 1998);
- Corporate governance operates in a market based economy (Hilmer 1993).

Methodology

This qualitative study is situated within the constructivist paradigm and used a modified grounded research approach (Glaser and Strauss 1967; Strauss and Corbin 1990; Whiteley 2000). Forty-five directors of public listed Australian companies and sixteen Australian funds management executives were interviewed. Directors interviewed were on more than one publicly listed company board. Their experiences have been gleaned from past and present board memberships and their responses drew on this overall experience, spreading their examples over time and geographical space. The research sought to develop a shared view of the world of corporate governance as experienced by these directors (McCabe 2002).

Content analysis, an adaptation of Glaser and Strauss (Glaser and Strauss 1967) based on theoretical rules, was used to establish categories of meaning. Categories of meaning arose from the interview data and from financial press literature collected. Theoretical sensitivity was developed as a result of comparison of data, allowing for numerous iterations. Principal findings are based on the categories of meaning drawn from the interview data (McCabe 2002).

Applying the Grounded Research Approach

The research makes use of the generative aspects of Grounded Theory (Glaser and Strauss 1967), applying both theoretical sampling and content analysis. The iterative process used permits meaning to be arrived at via discovery and emergence such that it is 'provisional, capable of reforming and reshaping as interaction proceeds' (Whiteley 2000 p. 5).

Turner (1981) and Glaser (1978) argue that 'orthodoxy of approach' should not be imposed on those using grounded theory. Adherence to the guiding principles is, nevertheless, necessary. Whiteley (2000 pp. 6-7) argues that the process of institutionalisation in business settings has laid the basis for conceptualisation to a degree that contaminates the use of pure Grounded Theory (Glaser and Strauss 1967). However, there is still value in making use of aspects of Grounded Theory (Strauss, 1990; Glaser and Strauss 1967). Whiteley (2000) proposed a modified *grounded research approach* as appropriate. The concept of corporate governance has become institutionalised and this research adopts the position that the use of the grounded research approach proposed by Whiteley is warranted (McCabe 2002).

Participating Directors

The preferred model for board composition in Australian public listed companies is that of a majority of Non-Executive Directors (Bosch 1993). In this model it is also preferred that the Chairperson be an independent director, thus separating the roles of the CEO and the Chair. The shift to the appointment of independent non-executive directors was promoted as the norm in Australia (Hilmer 1993; AIMA 1997; Australian Stock Exchange 1998; Norburn, Boyd, Fox and Murth 2000) as a result of corporate excesses of the nineteen-eighties. Whilst in the United Kingdom the Cadbury Report (Cadbury 1992) also promoted a board composition that would include independent directors, the preference was for the role of CEO and Chairperson to be combined.

Demographics of the directors participating in this research (Table 1) are consistent with the preferred model for Australian BOCDs. It is worth noting that a number of the participants held positions on different boards in both executive and non-executive capacities. At the same time the interview data reveals that there are examples of other models to be found in the Australian context.

Table 1: Demographics of participating directors

Academic Qualifications		Board Positions		No of Boards		Age Distribution	
Awards	Directors	Roles	Directors	Boards	Directors	Ages	Directors
None	.... 4	Executive only	1	1 only ...	1	< 35	.... 0
Professional	.... 2	Non-exec only	24	2-4	18	35-49	.... 4
Undergraduate...	13	Exec and Non-exec ..	5	> 4	11	50-65	.... 16
Masters/Hons	.... 8					> 65	.... 10
Doctorate	.... 3						

Whilst the exception rather than the rule, one participant went on record as belonging to a BOCD made up exclusively of executive directors.

.../ our company for instance has been built with all executive directors - with no Non-Executive directors.../

Types of Directors

A key point of discussion was the need to distinguish between Non-Executive directors (NEDS) who are considered to be independent and NEDs who are not independent. It can usually be expected that a board will include executive directors and non-executive directors (AIMA 1997; Bosch 1995; Hilmer 1993). The non-executive directors (NEDs) can contain two distinct groups. There are those who are truly independent of management and those who are not independent of management because of past or current relationships.

.../ now let us be clear about what you mean.../ you have got to distinguish between independent directors and Non-Executive directors.../ some retired executives want to continue to be managing their power bases in the corporation.../

Figure 1: Participating directors identify different types of directors.

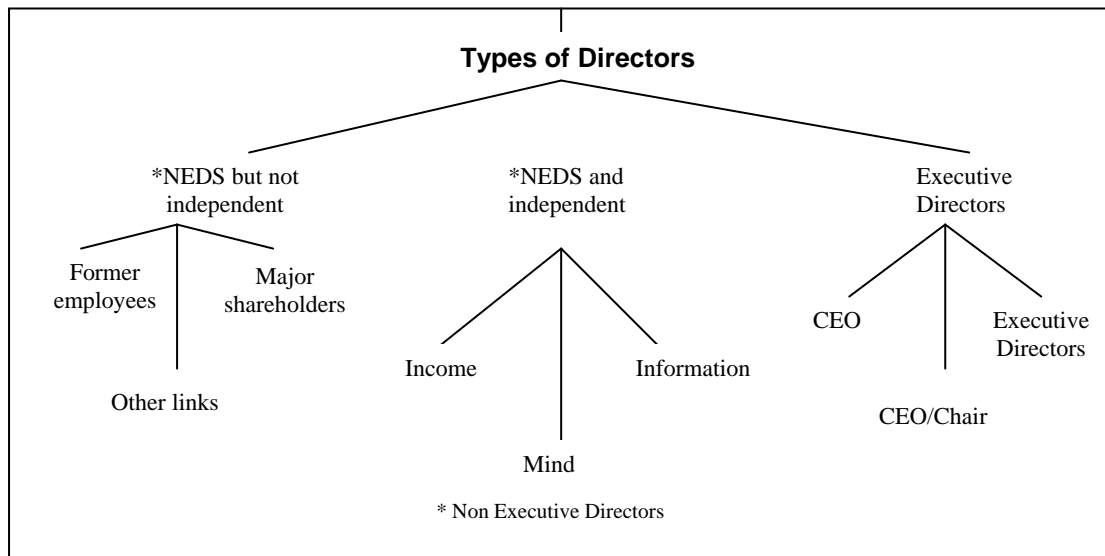


Figure 1 shows categories of directors that were identified by participating directors along with some key characteristics of each group. The Australian preference for a separation of CEO and Chair (AIMA 1997) does not exclude the likelihood that the roles can at times be combined (Figure 1). Where they are not combined, the purpose of the separation is to demonstrate independence for the role of the Chair.

The chairperson should be an independent director or, if the chairperson is not an independent director, the independent directors should appoint one of their number to be lead director and to report to them on issues falling within the normal purview of a Non-Executive chairperson (AIMA 1997, p. 21).

History has shown that the intention of the regulators in this regard can be frustrated if the notion of independence is compromised in any way. The restructuring of the

BHP board in 1998 saw the removal of both the CEO (Hextall 1998; Durie 1998) and the Chairman (Bolt and Kitney 1998; Flint and Hurst 1998) in an effort to provide a measure of independence to the two roles.

NED and independent?

Bosch (1993) describes the requirements for independence as not being a substantial shareholder, not being employed in any executive capacity by the company within the last three years, not retained as a professional advisor by the company, not a significant supplier to the company and having no significant contractual relationship with the company other than as a director. Baysinger and Butler (1985) describe these directors as 'outsiders'.

Company directors interviewed in the study were of the opinion that directors who are 'NEDs and independent' need to demonstrate an independence of mind, independence of knowledge sources and independence of income.

.../ exercise absolutely independent judgement .../ stand alone independent thinking .../ encourage them rather than discourage them from getting independent information .../ an independent staff, office, relationships .../ is not dependent on board fees for a substantial part of his income.../ not beholden to it because they are a major supplier to the company.../

NED but not independent

Non-Executives Directors who are not independent were described by Baysinger and Butler (1985) as 'grey area' directors. In an Australian study (Clifford and Evans, 1997) it was found that 35% of the Non-Executive directors in publicly listed companies in the study were in this category. They are former employees, major

shareholders or directors holding some other form of contractual relationship with the organisation such as providing goods or services.

.../ been on the board for something like twenty years in 1996 [and so] classified as not being independent .../ a director who is a partner in a law firm which is used by the company is not independent .../ a big shareholder has a vested interest in outcomes .../ they should be called Non-Executive directors as distinct from the independent Non-Executive director.../

Executive Director

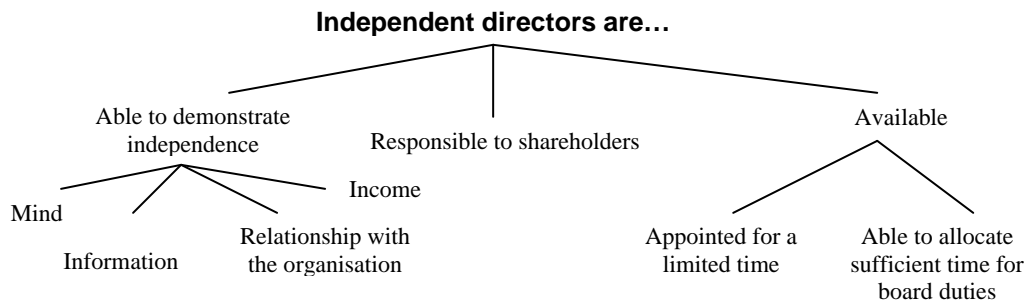
The Executive Director is either on the board in an executive capacity or in the capacity of Chief Executive Officer (CEO) or the combined role of CEO and Chairman. While executive directors form a traditional category of BOCD members some participating directors viewed having executives as members of the BOCD as problematic.

.../ the senior executive team ought to be in the board meeting as observers .../ it is very difficult for executive directors to contribute as a director.../

Requirements of Independence

Within the board, the role of the independent director has taken on a greater significance in the Australian BOCD since the nineteen-eighties. Participating directors talked about three dimensions that were important in identifying the independent director. Directors should be able to irrefutably demonstrate their independence; they should be responsible to shareholders; and they should be available to devote the time required of the role of an independent director.

Figure 2: Independent directors and their independence



Demonstrating independence

Independence in the relationship with the organisation was an essential feature of demonstrating independence. In addition to Bosch's (1993) requirement of the independent director as having no historical or monetary connection with the company, the question of relationship with the organisation also included the day to day working relationship with the company.

.../ directors generally do not get themselves involved in the nitty-gritty of day to day management .../

Participants considered that providing an independent view in the boardroom assisted directors in maintaining a balance of power within the boardroom with a view to sustaining board management relationships. Because this was important to the overall operation of the board, resulting in benefits to the organisation, it followed that having independent directors on the board was of importance.

.../ providing first of all an independent view .../ stand alone independent thinking
 .../ there has got to be a good relationship between the board and management.../ understand well the role of the Non-Executive director compared

with management.../ do not try to back seat drive management but try to stimulate.../

Relationship with the organisation

The balance required called for maintaining a workable relationship with management and respect for the independence of the director.

.../ act as a check and a balance on the enthusiasms of management.../ capacity to say management is wrong, or the major shareholder is wrong.../

When Justice Rogers (1992) made the observation that within business conglomerates the opportunity for Non-Executive directors to exercise meaningful control over management was extremely slight he highlighted the extent to which management is seen as the embodiment of the corporation. As a social entity (Francis 1997) the corporate identity is able to reflect the characteristic features of the management team and its make-up. This view of the firm differs significantly from Jensen and Meckling's (1976 p. 311) 'black box' view described as 'legal fiction' serving as a nexus for contracting relationships.

Grady (1999) describes the board role in a way that implies that a closer relationship can exist between management and the board than is usually demonstrated on Australian BOCDs. Among directors there were those who saw the traditional separation of board and management as necessary. One participant, holding the role of chairman on a board, held firmly to the idea that boards and management should remain separate.

.../ I also have the responsibility to be the bridge between management and board because I am leading the board.../

Another director held similar views.

.../ once they get interlinked into where management is it will become counter productive.../

These views are consistent with the traditional property model of corporate governance supported by agency theory (Francis 1997). Finklestein and Hambrick (1996) talk about the monitoring role of the board. Pease and McMillan (1993) talk about the dual roles of the board, describing them as strategic planner/pilot and that of supervisor/monitor. Participants also identified these two roles,

.../ divides them into pilot boards and monitoring boards.../ The piloting, monitoring thing is I think, only just one way of looking at it.../ in the past I think that they were all pilot boards.../ the accrediting board could in fact be the piloting board.../

For others the monitoring role was seen to focus on the board's role of ratifying and monitoring the implementation of strategy. Development of strategy was not included in any descriptions of the monitoring role. This suggests that directors saw the monitoring role as consistent with agency theory (Fama and Jensen 1983), but not extending to the more dynamic model of best practice they promote in the interviews.

.../ their job is to ensure that this Chief Executive that they put in and that they are monitoring against his strategies, is in fact achieving the increments in shareholder wealth that they set out to do, rather than get involved in a really hands on way with what he is doing on a constant basis.../

Directors warned that too close a relationship with management puts the independence of directors at risk.

.../ directors have to associate with the company but they still have to maintain that air of independent and objective overview.../

Grady (1999), on the other hand, maintains that exercised properly, the strengthening of this relationship can actually work to also strengthen and maintain the independence of directors.

The activities of the board that participants saw as directed towards management included maintaining board/management relationships, reflecting on what is happening in the company and monitoring the delivery and implementation of strategy.

.../ it is a collective thing. In board performance analysis it is very important to get management input.../ how does the board relate to management? That is an equally important question.../ but I think that it is a chairman's role and duty to make sure that the other members of the board do have similar contacts, for example, by plant visits, by meeting with managers, by having managers address the board, by meeting with customers, by meeting with suppliers.../

This suggests that directors see interaction between management and the board as enhancing their ability to function as a board. In reference to the board's role one director commented on what was perceived to be a best practice relationship between board and management.

.../ best practice companies I would see as proactive and interactive with management .../

In the discussions concerning the various activities of the board, in particular those that were perceived as related to performance of the organisation, it was clear that there was a reliance on a strong working relationship between the board and management. The relationship between board and management is clearly demonstrated when the board is called upon to make judgements about risk based on the information made available by management. When directors claim that 'risk

taking is what generates value for shareholders' there is clearly a reliance on management to facilitate this function of the board through the provision of relevant and sufficient information. It follows then that relationship with management was seen by most directors as crucial in the development of strategy.

.../ you really want a board to be ... interacting in an iterative kind of way in the development of the strategy .../ the board is responsible for the vision and strategy of the company. However, this is not done in a vacuum and the board works in an integrated fashion with the management to arrive at (a) the final strategy and (b) the manner in which the strategy is to be implemented .../

Thus for the independent company director reflecting on what happens across the company, and understanding what happens in the delivery and implementation of strategy calls for extensive awareness of external environmental influences. By implication there is need to be connected to these things in the organisation. This is what Grady (1999) refers to as the board's responsibility to contribute to creating history as opposed to restricting the board's functions to reviewing history through the process of reviewing and assessing what has happened in the company to this point. Dunphy (2000) suggests there is increasing demand for corporations to work towards a future vision rather than be entrenched in precedent and past practices. Stacey (1996) claims it is also necessary to know what is happening and how these things are impacting on the operating environment and anticipating the ways that they need to be adjusted in response.

Independence of income

Associated with demonstrating independence in relationships with the organisation is the requirement that independent directors have an independent source of income. Whilst the discussion concerning remuneration of independent directors

acknowledged that there were many forms in which this can be done, there was a consensus that in the name of independence these directors should not be dependent for their income on any one particular board.

.../ They are not beholden because that is the only source of income that they have .../ independent staff, office, relationships.../

Independence of mind

Whilst independence in the relationship with the organisation was considered an essential, participating directors considered that 'independence of mind' was the most significant requirement.

.../ stand alone independent thinking .../

Although proponents for the inclusion of independent directors on boards have seen this as a way of opening up BOCDs to bring new perspectives to the board table, it has been claimed that most boards, having secured both executive and Non-Executive membership, lack the diverse thinking that is required for challenging management's thinking (Grady 1999, p.10). In Grady's view this is because most directors are men 'cut from the same cloth'. Leighton, reporting on the structural characteristics of Canadian and U.S boards claims,

It takes a bold and secure director or search firm to put forward the name of a woman, a labour sympathizer, socialist, environmentalist or other outspoken advocate to any board selection committee, and if someone is suggested from 'outside the box', that name usually disappears in the process ... (Leighton 2000 p. 258).

Appointing directors that are independent of the organisation does not in itself ensure independence of thought and professional judgement. The differentiating feature for

the independent director is that information is freely available to them and able to be supplemented by them from other independent sources of information (Nowak and McCabe, 2003).

The collapse of the insurance company HIH, in Australia (Chenoweth and Hepworth 2001; Honourable Justice Hely 2001) is viewed as an example of poor judgement endorsed as a result of inadequate information being provided to board members. In this instance the prevailing board culture resulted in an over reliance on the individual judgement of the CEO and strong 'group think' (Four Corners 2001). It was not sufficient that the board structure provided apparently 'independent' directors.

Conger, Finegold and Lawler (1998) propose that the Board of Company Directors (BOCD) become a repository of knowledge and experience that of necessity must match the strategic demands of the company. Pease and McMillan (1993) consider that by ensuring that there are both directors who are Non-Executive and independent and directors who are Non-Executive but not independent, it is possible to sustain a healthy climate of conflicting and diverse thinking on the board, so avoiding the perils of 'group think'. Independence of mind is seen as an essential prerequisite if the intent of the regulatory requirement is to be met.

Independence of information sources

Participating directors also believed that they needed to have confidence that they could request access to internal information and management sources when what they had was deemed to be insufficient.

.../ I cannot really make a rational objective decision or judgement about this unless I have got that level of input of information, or standard of information.../

Again, the HIH example (Four Corners 2001) provides evidence of what can potentially result when this confidence in the CEO's willingness to provide access to critical information is missing.

The inclusion of independent Non-Executive directors does not necessarily ensure that the objective of access to diverse areas of information is met. Nowak and McCabe (2003) report that directors perceive that the power over information is in the hands of management and that directors have to develop a range of information garnering strategies to access the information required to fulfill their role. The value of independence was seen to be lessened when the independent director was reliant largely on management for information required in performing as a member of the board. Providing a board structure with a majority of independent Non-Executive directors is not deemed sufficient to ensure the integrity of the board (Francis 1997).

Boards are encouraged to recruit members from a wide range of professional backgrounds that are relevant to the industrial and marketing environment of the organisation (Pease and McMillan 1993). People with backgrounds within the industry and its competitive environments, or within associated fields, are in a position to gain their knowledge from sources independent of the internal management. They are also in a position to supplement the knowledge and expertise of management. In the words of one of the participating directors:

.../ they bring to a company some experience which would benefit management.../ if the independent director does not have the capacity for getting information or knowledge about the company or the industry or the world, other than through management then its independence is mitigated .../

Traditionally, management was the principal provider of information to BOCDs. In the view of participants this remains, for many, the model for Non-Executives to access critical information.

.../ Non-executive directors receive information in a very formal channel.../ as a director you are absolutely at the mercy of the Chief Executive and the management and you rely on them enormously to give you the information that you need .../

While the practice of appointing independent directors does not necessarily arise from the logic of agency theory (Nowak and McCabe 2003) the dependence of independent directors on management as the principal source of information does. Management are the agents appointed by the owners to operate the company. In this position, management is in control of the operational information pertaining to the day-to-day running of the organisation. Directors are dependent on management for this information. In this study directors discussed the problems associated with accessing information they needed.

.../ Chief Executives want to, even the good ones ... tend to want to control the flow of information to the board.../ if people putting up the information on the proposals have the power, it is difficult to get around that.../

Bosch (1995, p. 15) attributes the collapse of the State Bank of South Australia to a management team that manipulated 'the provision of information to the board in order to procure the result which management sought.'

Most participating directors believed that management would give them information if they asked for it but in many cases it would be a case of having to ask for specific information.

.../ if they think that it is inadequate they can always ask for more information or they can ask to come in and have a talk or a proper briefing.../

Directors in this study made a strong case for independent directors having independent means of accessing information.

.../ encourage them rather than discourage them from getting independent information .../ it is a matter of keeping themselves informed .../

The recommendation that all directors have unrestricted access to company documents and that the company fund external sources of information (Governance 1999) addresses these concerns and moves the current practice within Australian BOCDs towards the practices that prevail in the American approach to accessing information. Francis (1997) indicates that more and more Australian directors are turning to outside experts, credit rating agencies, risk analysis and business audit companies in their quest for information when assessing their own organisation.

One participant talking about his lengthy experience with American boards indicated that:

.../ anything that you wanted to do has to go through almost a separate process of due diligence to convince the independent directors that it was fair to the minority shareholders and that often included getting independent legal and independent accounting advice for the independent directors.../

Experiences among participants indicate that this level of independence is not yet a part of the Australian board culture.

.../ (for) a Non-Executive director of an Australian company, it would be extraordinary if he went out and sought independent legal advice because he needed to protect himself in a transaction that the company was involved in.../

If management is the principal supplier of information, the extent of the BOCD's dependence on management contributes to a highly predictive arrangement. Solutions tend to be those proposed by and sought by management. This has the capacity to restrict the potential for innovation and change. Complex adaptive

systems theory defines this situation as simple and linear (Stacey 1996). Simple linear lines of communication restrict discussion and produce highly predictive outcomes (Griffin, Shaw and Stacey 1998). If X is the case then Y is expected (Jones 1995).

The case where information is being accessed freely from within the organisation and also from external sources (Francis 1997) does not fit within the predictive model. A non-linear way of operating is complex and enables dynamic interaction to produce emergent solutions (Griffin, Shaw and Stacey 1998). This framework allows independent contributions with regard to deliberation and the making of judgements. In such an environment BOCD members are encouraged to bring innovative and challenging ideas to the board room.

Responsibilities to shareholders

Recognition of the responsibility to shareholders acknowledges shareholders as owners. It implies that there is a focus on shareholder value and accountability that is transparent.

.../ have responsibility and accountability to the whole body of shareholders .../
acting on behalf of shareholders.../ a good board ... thinks about performance
and creating wealth for shareholders .../

Shareholders are owners in a corporation by virtue of the monetary investment that they make in the company (Butterworth 1997). Directors saw the shareholders as the real owners of the company.

.../ the real owners are the shareholders.../

Directors observed that, simply in terms of numbers, individual small shareholders formed a significant group. However their position in the life of the organisation was not seen to be commensurate with the size of the group.

.../ in most if not all public companies the individual shareholders in numbers of shareholders, far exceed the number of institutions. It may be that those individual shareholders will not have the comprehension of what is being presented to them that they should have.../

In spite of the large numbers of individual shareholders the implication is that, as a group, their influence is limited. Consultation with the individual shareholder does not figure as a significant dynamic in the development of corporate strategies designed to achieve shareholder value (Useem 1996).

It is clear that, other than at the Annual General Meeting, only a major shareholder is in a position to wield significant influence. In Australia, the Australian Shareholders Association provides individual, small shareholders with the benefits of a concerted voice, when, as isolated voices, they could easily be overlooked or ignored. However it does not provide them with a voice or voting rights in the board room. In the logic of Agency theory the individual investor, while not having internal voice, does have exit voice and can quit their shares if not satisfied with company performance. The role of the BOCD in a public listed company involves enhancing investor confidence (Bosch 1993; Hilmer 1993; Useem 1996). The board will only achieve this by producing positive performance results for the organisation. Concentrating on performance activities will normally satisfy the need to focus on shareholder interests. As directors commented,

.../ you have got to focus on shareholder value.../ bottom line focus of shareholder value.../

Protecting Independence and ensuring availability

Protecting the independence of directors was considered to be crucial. Directors saw the tendency for independent directors to remain on the board for an extended period of time as eroding an individual's capacity for independence. Being 'appointed for a limited time' was considered an appropriate way of protecting independence of directors.

.../ independent directors should not remain on the board of a particular company for too long.../ we have said ten years is ample.../

Directors observed that ensuring that directors were 'able to allocate sufficient time for board duties' was also an important part of protecting the independence of directors.

.../ someone who has the time to put in .../ who will spend enough time to understand the company.../

The number of directorships held by an independent director tends to give credence to the fact that a particular person is of value to a BOCD. Developments within corporate governance legal frameworks have questioned this practice. Mattis (2000) observes that there is a trend for executives and directors to hold fewer directorships due to liability issues. Bringing an informed and independent view to BOCD deliberations requires the independent director to allocate the amount of time required for research and deliberation.

Selecting independent directors

Wallis (2000) and Pollak (2000) discuss the responsibility of the BOCD to appoint directors to the board as well as to select and appoint the CEO. Given the propensity for boards prior to the nineteen-nineties to subscribe to the 'old boys club' strategy for

succession planning, or at best an ad hoc basis (Hilmer 1993), it is understandable why directors gave importance to this. It is clear from the qualitative findings that the 'old boys' club' mentality was something boards wanted to avoid in their succession planning but it was not always clear this could be easily achieved.

.../ business was done on the old boy network.../ there was a little bit of an old boys' club around.../ one of the things that companies do not always do well, I think, is to be sure that they have got proper succession plans in order.../

There is evidence in the literature that general practice still does not demonstrate all that is aspired to in this regard. Leighton (2000) considers the role of the major shareholder in selection of board members and suggests that pragmatism drives the process.

It is much easier and hassle-free to operate on an ad hoc process built on an old boys' network, where the board has at most a kind of veto over candidates put forward by the chairman or major shareholder (Leighton 2000 p. 25).

Both Leighton (2000) and Grady (1999) are of the opinion that, in spite of the changes with regard to board structures, the trend continues. Those chosen for directorships are more likely to be 'cut from the same cloth' or 'people like us'.

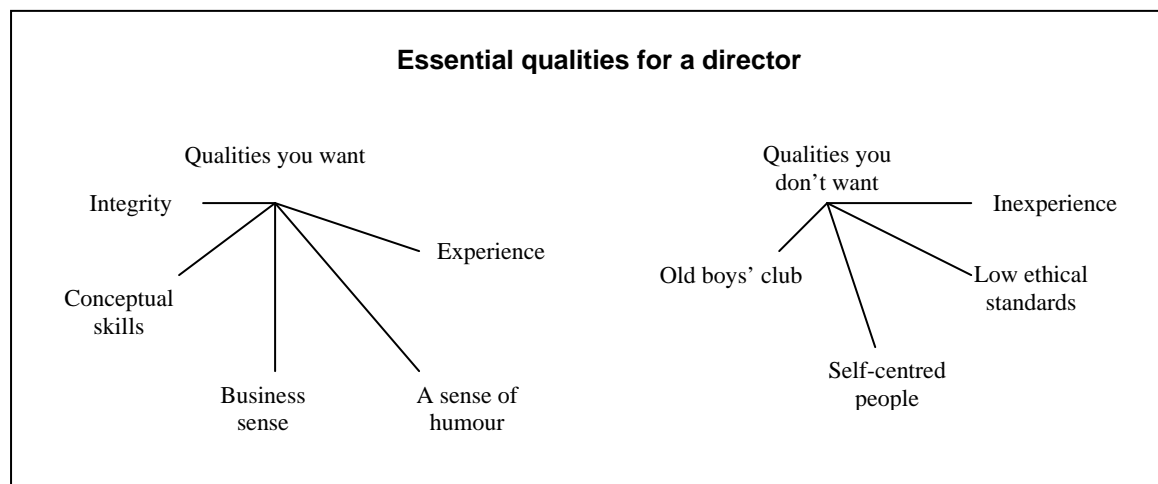
Directors also noted the obvious gender disparity in the composition of boards. They talked about the reasons underpinning the lack of significant numbers of women on BOCDs. Directors considered that experience in executive roles was the definitive factor preventing many women from being included on boards.

.../ there is a lot happening that is causing younger women to gather that experience and they are coming into boards and are very effective and it is easy to recognise the fact that they have got that experience.../ there is some question

about how we address that subject because it would possibly be a good idea for us if we could find a way to put women in a position where they can gain that experience without us having to go through another twenty years of the development of women in business.../

Mattis (2000), in researching the appointment of women to corporate boards in America, examines the four principle findings of a report by an executive search firm (Daum 1999). Relatively few women have reached the level in the corporate ladder that provides a pool of potential directors (i.e. former or current CEO, CFO or Chairman), those who have reached this level are selective when choosing the board invitations they accept, the recent trend for executives to hold fewer directorships due to liability issues and serving on a corporate board can be a major distraction from one's own career. Consequently, qualified women were considered more likely than men to decline invitations to join boards.

Figure 3: In search of a director.



Directors talked about what they considered to be the essential qualities one looks for when selecting a director (Figure 3). While directors claim that they would want to see these qualities in all directors, clearly they are the criteria applied in the selection of independent directors.

Table II: Criteria for organisational leadership

Selection Criteria Charan's CEO	Comparative skills; company directors' perceptions of skills required by directors
Intellectual capacity for dealing with complexity	Conceptual skills .../helping the company through the complexities and challenges.../ensuring the right issues are on management agenda.../good conceptual skills.../
Business instincts	'Business nous' .../if they have got commercial nous they have got a whole lot of other skills.../ I mean commercial judgment.../ a really best practice board if you have people with commercial nous.../
Superb at selecting individuals, especially at top levels	Have the right people .../you have got to have good people, good succession.../Creating synergy
Aligns energy	.../get everything in harmony and synergy.../disharmonies...there is a whole lot of wasted activity.../
Change agent	Social and communication skills. .../if people around the table have got a reasonable sense of humour you can defuse it.../perception and the ability to communicate that
Communicates openly, directly	
Edge in Execution, delivers measurable results.	Desirability for directors to take decisions to take acceptable risk .../create shareholder wealth by taking risks.../have people who are willing to take on an acceptable degree of risk.../
Builds positive working relationship with the board	Integrity as a personal leadership trait. .../you have got to have honesty and integrity.../ proper ethics.../ weigh up information and ethical considerations.../
Totally honest in keeping the board informed on positives and negatives	
Succession planning as organisational responsibility	Succession planning involving whole organisation .../so that you have got successional alternatives in place.../ on the performance side...need to ensure that there are succession plans in place for management.

Derived from: (Charan 1998, pp. 208-209).

Charan (1998) developed a set of criteria for use in the selection process for the CEO, and proposed that using the same set of criteria throughout the organisation would assist in embedding the leadership qualities sought by the organisation in its corporate genetic code. It is useful to consider the qualities proposed by the participating directors alongside comparative criteria from Charan in Table II. It is apparent that there is considerable consistency between the qualities directors sought in fellow directors and selected criteria from Charan's list for the selection of the CEO.

Conclusion

The jury is still out as to whether or not independence is linked to improved performance (Heracleous 2001; Clifford and Evans 1997; Hermalin and Weisbach 1991). Directors who were interviewed claimed that the independent director had a role on the board - and that there was potential for this role to be a significant one. At the same time they did not make a claim for independence being a significant influence on sustainable performance. Some directors considered there were disadvantages associated with the practice of an independent chairman particularly in attaining a competitive edge in the market place. In spite of these differences of opinion the findings show that participating directors supported the notion of independence among directors. They provided information on how that should best be demonstrated, the qualities that enable independence in a director and the support systems to facilitate that independence.

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