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## **IMPROPERLY APPOINTED BOARDS SPELL DISASTER FOR ORGANISATIONS**

By Terrance M. Booysen and reviewed by Joanne Matisonn (Head of Corporate Governance: TMF Corporate Services).

It has been said that it is very difficult to accurately describe *what* exactly defines a good board of directors, and trying to find a scientific formulae for a so-called 'perfect' board is improbable. At the inception of the first round of appointing directors on the board, the shareholders will usually have a very good idea of the ideal group of directors which they believe will be best suited and qualified to start and direct the business. At this early stage of the organisation's existence, the board will require unique people with the same vision as its founding shareholders, but have a diversity of thought and outlook to enrich the strategic process. As with most new business ventures, there's usually a lot of risk -- even levels of uncertainty regarding business success -- and it is therefore critical that the board ensure they have the correct people who are capable of actually doing the work cut out for them. Indeed, the board must be capable of aligning the vision with a strategic path, whilst at the same time being acutely aware of the risks associated with the many business failures that are linked with start-up organisations.

Assuming the organisation is a success and it has grown in size, representation and profitability (among other measures of success), one of the criteria the board should have implemented would include a succession management policy and plan for the on-going sustainability of the board, both at a collective and individual level. Expectedly, such thinking would also be embedded within the organisation's constitutional documents and business processes, and rightly so if the board is fulfilling its fiduciary obligations to protect the interests of the organisation and its leadership.

*"It has been said that a good board will not make a company, but a bad one will inevitably kill it. It has also been said that troubled boards outnumber functional boards by a wide margin. As such, it would seem there is both a deep need and wide opportunity for those who can assist "Boards" to function better."*

**Kendall Reed (July 2013)**

As the organisation becomes more established, it stands to reason that when members of the board are due for rotation or retirement, the board will be required to consider which 'elements' of the board functioning must be retained for the purpose of maintaining its continuity and enhancing the creation of value, and which elements should be replaced (or sought after) in the expertise, skills and experience of candidates for the board. To this point, whilst it is critical to observe and protect the interests of the organisation, selecting and/ or removing a director tends to become highly charged where personal emotions become underpinned by self-interest which overshadows the interests of the organisation. In South Africa, which has been mired by a number of highly questionable leadership decisions being taken by the boards of a number of state-owned companies (SOCs), one needs to consider whether or not the people being appointed to boards are truly *fit and proper*, not least also that they are indeed the right person being selected as board members.

Given the pace in which the world demands change -- and fuelled by an increased awareness for good governance practices -- most boardrooms today are acutely aware of their many challenges to balance their collective and individual performance against global best practices. Indeed, a board that does not have the ideal composition of directors, including the appropriate diversity, experience, knowledge and skills, is bound for

certain disaster. Whilst there may be no perfect board, having a group of carefully chosen directors who are bound by common goals, and who are capable of remaining ethically steadfast in volatile conditions, is key to the organisation's ultimate success and longevity. With this in mind, many directors may have an impressive looking curriculum vitae, however their *real worth* is only discovered once they are put to the test in the boardroom, and their fortitude is tested when they are presented with one crisis after another. In reality, it takes a very special individual to occupy a seat at the boardroom table, and organisations in search of these rare people must be assured that their directors are fully capable of exercising sound business judgement, whilst at the same time being calculated risk-takers, innovators and motivators.

For boardroom efficacy, it is therefore critical that Board Nomination Committees avoid selecting directors purely based upon the individual's character and/ or the merit of their past experience and performance. Ironical as it may seem, the experience of a director which may have worked well on one board may in fact 'back-fire' on another, with disastrous consequences for the organisation. Moreover, each board is a unique organism, and its dynamics are usually very different as compared with those from other geographic regions, industries and even structures (for example, the manner in which a board is composed in Scandinavian countries -- considering its two-tiered hierarchical system -- is not the same as board structures and compositions in South Africa which are typically structured on a unitary system.) Whilst it is important for organisations to have proper succession planning for their board, it is equally important knowing what personality types work best, not only for the board as a collective, but also in respect of achieving the strategic goals of the organisation. If members of the board are at constant odds with each other, it is hardly likely that they will be in a position to work in harmony and to the benefit of the organisation. Notwithstanding their best intentions, their true worth will be squashed through dysfunctional boardroom behaviour and destructive lobby groups.

A good board of directors is one that is comfortable talking about any issue; be these matters relating to the strategic direction of the organisation, right through to directors who are no longer adding value to the board (including those who have brought reputational damage upon the organisation). Of course talking about these types of issues is one thing, it's altogether something else when the board takes decisive action to rectify any unwanted situation where the organisation is protected from harm.

Given the recent spate of events within two of South Africa's SOCs, the beleaguered boards of the South African Airways (SAA) and the South African Broadcasting Corporation (SABC) have been splashed in the media headlines for their questionable board appointments, practices and their subsequent sub-standard performance. These events have caused the respective organisations immeasurable damage, and the boards and their respective members should be held to account collectively and individually.

### ENDS

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