Chapter 1
Board Diversity and Its Effects on the Functionality of Boards in South Africa

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ABSTRACT

The structure and composition of the board are determined by the characteristics of an organisation, its environment, and its information needs. If the role of the board is to advise and supervise, this then talks to the relationships that account for its composition so that it may carry out these duties. Boards of directors are now faced with a change in the priority of the functions that must be undertaken by them, with supervision and monitoring being more important than the usual function of administration. The chapter discusses the literature on board diversity, corporate governance, role of the boards of public entities, effectiveness of boards, role of board committees, strategic leadership theory, and the impact of board diversity on board effectiveness. In terms of practical implications, the chapter makes a unique and significant contribution to the functionality of board members in South Africa. The analysis may encourage board nomination committees to seek board diversity beyond the gender and ethnic characteristics of directors.

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INTRODUCTION

Corporate governance is a process that aims to allocate corporate resources in a manner that maximises value for all stakeholders – shareholders, investors, employees, customers, suppliers, environment and the community at large. It holds those at the helms to account by evaluating their decisions on transparency, inclusivity, equity and responsibility. A board of directors is considered to be the key decision-making body in an organisation and is responsible for approving important strategic operational and financial decisions. Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which an organisation is governed. In contemporary business corporations, the main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives, and the employees.

Diversity in the boardroom has been a hot topic in recent years. The questions then are: Does the traditional boardroom of a fairly uniform group of individuals really produce the most effective decisions and strategy for a company? Does such a boardroom have exposure to a wide enough range of perspectives to facilitate robust discussions of issues that arise? Good corporate governance calls for a solid theoretical framework which recognises and manages risks in an organisation. This chapter discusses the concept of corporate governance, principles of corporate governance, functions of the board of directors, parties to corporate governance, board composition and board committees, board diversity, board independence, the role of stakeholders and shareholders in corporate governance. The chapter further analyses the impact of board diversity on board effectiveness and organisational performance, corporate governance and corporate financial performance, recommendations, and areas for future research.

WHAT IS CORPORATE GOVERNANCE?

Corporate governance in simple words means the extent to which organisations are run in an open and honest manner. It is a broad term that defines the methods, structure and the processes of an organisation in which the business and affairs of an organisation are managed, controlled and directed (Gill, 2008). Corporate governance also enhances the long term shareholder value by the process of accountability of managers and by enhancing the firm's performance (Khan, 2011).