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MBA 2005/6

AN INVESTIGATION INTO THE TRAINING OF NON-EXECUTIVE DIRECTORS OF BANKS

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A research report submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfillment of the requirements for the degree of Master of Business Administration

November 2006

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ABSTRACT

Following a number of high-profile bank failures in recent years, both locally and abroad, increasing emphasis is being placed worldwide on the accountability and responsibilities of boards of directors. The Registrar of Banks has publicly stated that there needs to be a focus on the training of non-executive directors in particular in order to enable them to fulfil their duties. In addition, although most banks have some form of director training programmes, no minimum standards for non-executive director training have been developed or measurement tools implemented.

The purpose of the research was to investigate the training of non-executive directors of banks in South Africa so as to contribute to the contribute to the current debate and understanding of what interventions are necessary to respond to the call by the Registrar of Banks. A combination of qualitative and quantitative research methodologies was used to elicit a cross section of views and an approximation of the truth.

The results indicate that while there is widespread acceptance of the need to address the issue of training of non-executive directors of banks, there are divergent views on how this should be done. In particular, further research needs to be conducted in order to develop standardised methodologies and assessment tools.

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DECLARATION

I declare that this research project is my own, unaided work. It is submitted in partial fulfillment of the requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university.

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Sarita Martin

14 November 2006

ACKNOWLEDGEMENTS

This research project would not have been possible but for the support, guidance and generosity of the following people:

- My supervisor Professor Dave Beatty for his support, wisdom and guidance in seeing me through this research project.
- My husband, Craig, for his unwavering patience, support, inspiration.
- My parents, Aroola and Kamala Naidoo for their understanding of my time constraints and instilling in me the value of an education.
- My late grandmother for always being my guiding light – I know you are always guiding me where-ever I may be.
- My boss, Pieter Marais and my MBA mentor David Woollam, for their belief in my abilities and their support and understanding throughout my studies.
- Rob Law of the Instititute of Bankers, who started me on this research journey.
- Marylou Kneale, for giving her time so generously and for being such a great sounding board.
- My fellow classmates for their motivation and friendship throughout these 2 years.
- All the participants in this research for their willingness to contribute.

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LIST OF ABBREVIATIONS

BSD – Bank Supervision Department

CEO – Chief Executive Officer

COO – Chief Operating Officer

CPE – Continuous Professional Education

CPD – Continuous Professional Development

GIBS – Gordon Institute of Business Science

GIMT- Graduate Institute of Management and Technology

IoB – Institute of Bankers, South Africa

IoD – Institute of Directors

NED – Non-executive director

OECD – Organisation for Economic Co-operation and Development

RAU – Rand Afrikaans University

SARB – South African Reserve Bank

UNISA – University of South Africa

WITS- University of Witwatersrand

CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1 Introduction

"The 19th Century saw the foundations laid for modern corporations; this was the century of the entrepreneur. The 20th Century became the century of management …The 21st Century promises to be a century of governance, as the focus swings to the legitimacy and the effectiveness of the wielding of power over corporate entities worldwide" (King, 2002, p. 15).

"For many years it was assumed that directors did not need specific training for conventional wisdom dictated that business experience was qualification enough" (Reynolds, 2002, p. 27).

1.2 Motivation for the research

Following a number of high-profile bank failures in recent years, both locally and abroad, increasing emphasis is now being placed worldwide on the accountability and responsibilities of boards of directors. "It is not an exaggeration to assert that many of the financial crises seen in recent years, including Asia, Russia and Latin America, can be attributed, in no small way, to fundamental weaknesses in corporate governance and risk management" (Bollard, 2003, p. 2).

The Registrar of Banks, Errol Kruger, has specifically emphasised that South African banks need to give some thought to the need for bank directors, particularly non-executive directors, to receive training to enable them to fulfil their duties (Bank Supervision Department, 2004). In addition, although most banks have some form of director training programmes, no minimum standards for non-executive director training have been developed and no measurement tools have been implemented. This is an under-researched area and is of particular interest to the researcher.

1.3 Research objectives

This research aims to contribute to the current debate and understanding of what interventions are needed in order to respond to the call by the Registrar of Banks for greater training of non-executive directors of banks. It seeks to answer the following questions:

A. What is the current status of training of non-executive directors of banks?
B. Where should any training intervention be focused?
C. How should the impact of any training intervention be measured?

1.4 Scope and context of the research

Because this is a relatively new area of emphasis within the banking sector, no research could be sourced that specifically dealt with the training of non-executive directors of banks in South Africa or internationally. Thus, reliance is placed on the general body of literature relating to non-executive directors and the general skills, competencies and knowledge required to be an effective non-executive director of a bank.

This research is not intended to be a study of a statistically representative sample of key parties within, and aligned to, the South African banking sector. The intention is to elicit the views and perceptions of interested and affected parties who are able to contribute to the debate. The research methodology adopted is therefore appropriate to meet this objective. The research has been conducted within the context of the South African banking sector and focuses specifically on non-executive directors of banks.

1.5 Organisation of the report

Chapter 1 of the report provides the motivation for the research study and the parameters within which the research has been conducted. It also highlights the key research objectives.

Chapter 2 presents the literature review, highlighting academic literature, pertinent to the research study. It has been structured to provide an overview of corporate governance in general, corporate governance as it specifically relates to the banking sector, the role and duties of a non-executive director, the need for training of non-executive directors and the emerging professionalisation of the non-executive director status.

Chapter 3 defines the research questions that this research study seeks to answer in light of the research problem, the literature review, and the research findings.

Chapter 4 details the research methodology adopted in order to obtain data to address the research problem. It sets out details of how the data was collected and the process of data analysis. Limitations of the research have been specified.

Chapter 5 presents the results of the data in terms of the research questions stated in Chapter 3.

Chapter 6 discusses the research findings presented in Chapter 5 in terms of the research questions in Chapter 3 and the literature presented in Chapter 2.

The concluding chapter, Chapter 7, highlights the main findings of the research study and proposes recommendations to stakeholders and future research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Non-executive directors of banks are usually appointed because of their qualifications and experience but little is done in terms of continuous education and development. The Registrar of Banks, Errol Kruger, in the 2004 and 2005 Bank Supervision Department Annual Reports highlighted the need for training of non-executive directors of banks especially in light of the special role that banks play within the South African economy, and given that both the Myburgh Report and the 2005 Bank Supervision Department report on the review of corporate governance in South African banks reported that:

- Most banks do not have an induction programme for directors.
- Even where induction programmes exist there is no standardised content.
- Many banks do not spend money on continuous education and development of non-executive directors.
- Non-executive directors play a different role from executive directors even though there is no distinction in law of the responsibilities and liabilities that attach to directors.
- Most non-executive directors of banks do not have a banking background and therefore may not be able to appreciate the special risks that banks face – they are therefore unable to perform the ideal role of a non-executive in challenging and asking probing questions because they do not have the knowledge base.

To answer the research questions posed in Chapter 3, it is important to understand the role of the non-executive director on the board of directors of South African banks and the academic literature on the training of the board of directors. It must be noted that no specific academic literature or previous research could be sourced on the training of non-executive directors of banks.

2.2 The South African banking sector

South Africa has a stable and financially sound banking system with 17 registered banks regulated by the Bank Supervision Department of the South African Reserve Bank (see Appendix A), offering a full range of services, including commercial, retail and merchant banking, mortgage lending, insurance and investments (Bank Supervision Department Annual Report, 2005).

Five major groups, the ABSA Group, the Standard Bank Group, the FirstRand banking Group, Investec and Nedcor dominate the South African banking sector. In 1994, these groups represented 83.8% of the total assets of the banking sector and in 2004, this rose to 87.4%. The remaining 12.6% of assets in the banking sector are held by the other 31 banks excluding the 2 mutual banks (Mboweni, 2004).

Mboweni (2004) notes that South Africa has established a well-developed banking system which compares favourably with those in many developed countries and which sets South Africa apart from many other emerging market countries. South African banks are regulated in accordance with the principles set by the Basel Committee on Banking Supervision and therefore, comply with international sound practice and offer a sophisticated banking system to the public.

South Africa re-entered international financial markets in 1994 with locally registered banks expanding their operations globally and international banks expanding their operations into South Africa. The effect of this was that the arrival of these predominantly resourceful and experienced banks posed formidable challenges to local banks, and in a quest to survive and excel, South African banks had to devise means to adapt to the new operating environment. As a result of the increased competition, lending margins were placed under great pressure, and several banks have had to expand their businesses and enter markets with slightly higher credit-risk profiles (Mboweni, 2004).

2.3 The concept of corporate governance

"The heart of it lies in the boardroom" (Bollard, 2003, p. 1).

A review of the literature reveals many definitions and descriptions for the term "corporate governance". Harris (2002) comments that corporate governance is not a fad, but an important trend and one that responsible board members and CEOs should be in tune with. Section 1(1) of the Banks Act (1990) defines "corporate governance" as including all structures, processes, policies, systems and procedures whereby the bank is governed.

Bollard (2003) broadly defines corporate governance as encompassing the systems and structures that a corporate entity has in place to oversee its affairs and states that it includes a clear understanding by the directors of their company's strategic objectives, structures to ensure the objectives are met, systems to ensure the effective management of risks, and the mechanisms to ensure that the company's obligations are identified and discharged.

The Organisation for Economic Co-operation and Development principles (2004) highlight the fact that an effective corporate governance system, within an individual company and across an economy as a whole, provides a degree of confidence that is necessary for the proper functioning of a market economy.

Naidoo (2002) writes that corporate governance is essentially the practice by which companies are managed and controlled and includes:

- the creation and ongoing monitoring of a system of checks and balances to ensure a 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 agreed parameters; and
- the development of practices which make and keep the company accountable to the broader society in which it operates.

Garratt (2003) refers to the history of corporate governance within an American context and says that for 400 years good governance has been built on the fundamental corporate values of accountability, probity/honesty and transparency/ openness to the owners. He goes on to say that these values have been reinforced by the basic personal, human values of humility, honesty, trust, frugality, quality and accountability.

"Corporate governance then, is essentially, about the responsible leadership of companies. This is leadership that is transparent, answerable and accountable towards a company's identified stakeholders" (Naidoo, 2002, p. 1).

2.4 Corporate governance in banking

"The stakes are high – hence the need for banks to maintain systems to enable them to identify, monitor and control their risks. And sound corporate governance is the foundation of effective risk management" (Bollard, 2003, p. 2).

Carse (2000) as quoted in Myburgh (2003), highlights that sound corporate governance is particularly important for banks as the rapid changes brought about by globalisation, deregulation and technological advances are increasing the risks in banking systems. Unlike other companies, most of the funds used by banks to conduct their business belong to their creditors, in particular to their depositors, and the failure of a bank affects not only its own stakeholders, but may have a systemic impact on the stability of other banks.

Basel (2005) supports this sentiment and says that effective corporate governance practices on both a system-wide and individual bank basis are essential to achieve and maintain public trust and confidence in the banking systems, which are critical to the proper functioning of the banking sector and economy as a whole. From a banking industry perspective, corporate governance involves the manner in which their boards of directors govern the business and affairs of individual institutions and senior management, which affects how banks:

- set corporate objectives including generating economic returns to owners;
- run the day to day operations of the business;
- meet the obligation of accountability to their shareholders and take into account the interests of other recognised stakeholders;
- align corporate activities and behaviour with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations; and
- protect the interests of depositors.

The small to mid-sized banking crises between 1999 and 2002 highlighted the need for sound corporate governance in banks in order to prevent systemic risks emulating from distressed banks and to this end the Registrar of Banks commissioned the Myburgh review in 2002 (Mboweni, 2004).

The terms of reference of the Myburgh Report (2003) were to broadly evaluate the standard of corporate governance applied by the banks on the premise that corporate governance is an essential element of a healthy risk-management process crucial to the banking business.

The need to ensure the robustness of corporate governance within the South African banking sector was further highlighted with the appointment in 2004 of a four-person team from the Bank Supervision Department to review the corporate governance practices of 14 South African banks, including two mutual banks, but excluding the five big banks, which had been reviewed in 2003. The particular objective of this second review was to establish to what extent an adequate and effective process of corporate governance had been established and maintained within each bank, and the extent to which the overall effectiveness of the process could be improved and enhanced. The review process was similar to that followed by Myburgh (2003) and included 191 interviews with all directors of the banks under review and the Heads of the Risk Management, Compliance, Internal Audit, Company Secretariat and External Audit functions (BSD, 2005).

Some of the general findings of the BSD report (2005) were that the banks reviewed were committed to the adherence to, and application of high standards of corporate governance, and accepted their responsibility for ensuring effective corporate governance. In addition, they were aware of the need to improve continuously, especially in light of ever evolving governance standards in South Africa and internationally.

2.5 The board of directors

Garratt (2003) explains that the East India Company developed the concept of a board of directors in the 17th century and it was designed to act as intelligent buffers to test the strategies of the managers and to police the executive's stewardship of the company's scarce resources.

According to Naidoo (2002), the board is responsible for the strategic direction of the company and is therefore ultimately responsible for ensuring the success of the business whilst management is primarily responsible for giving effect to the strategy as defined by the board.

However, the benefit of the individual and collective board experience has historically been lost because the traditional role of the board of directors has been a passive one. Typically, management evolved the strategy and then presented it to the board for review and formal approval. The board then authorised, endorsed and put its imprimatur on the plan whilst failing to be actively involved in the preparation of the strategic plan (Dimma, 1996).

Ingley and van der Walt (2003) define a board of directors as essentially representing a group of people, selected for their expertise, who come together to add value collectively to the organisation they lead. Garratt (2003) explains that the key assumption is that of directors acting together as a group of equals around the boardroom table charged with driving the enterprise forward while keeping it under prudent control.

The banking sector in particular, requires the board of directors of a bank to have a basic knowledge and understanding of the risks to which the bank is exposed because the board of directors of a bank is ultimately responsible for the maintenance of effective risk management and one of the prescribed duties of a director of a bank is to ensure that risks that are of necessity taken by such a bank in the conduct of its business are managed in a prudent manner (Myburgh, 2003).

All South African banks have a unitary board consisting of executive directors and non-executive directors who share responsibility for both the direction and control of the company. The benefit of this is the value of executive knowledge within the board alongside the value of the non-executive directors' wide experience. While the classification into executive, non-executive and independent non-executive directors was created by King (2002), it is now included in the JSE Limited Listings Requirements (2003), although the law does not recognise the distinction between an executive and non-executive director and they all bear the same responsibilities and liabilities, albeit that different weights attach to their responsibilities (BSD, 2005).

The case of Fisheries Development Corporation of SA Ltd v Jorgensen 1980(4) 156 (W) 165-6 as quoted in BSD (2005) highlighted the dilemma of attributing the same liability in law to the different classifications of directors in that executive directors participate in the day-to-day management of the company's affairs, and non-executive directors have not undertaken any special obligation nor are they bound to give continuous attention to the affairs of the company except attend periodic board meeting when reasonably able to do so, but are nevertheless expected to exercise the care which can reasonably be expected of persons of their knowledge and experience.

Myburgh (2003) contends that the board must be large enough to accommodate executive directors and non-executive directors and diversity although the board should not be so large that its size renders it ineffective.

2.6 The role of the non-executive director

"A non-executive director is an investment, not simply a cost" (Melville-Ross, 1996, p. 3).

King (2002) defines a non-executive director as an individual not involved in the day-to-day management and not a full time salaried employee of the company or its subsidiaries and states that they should be able to bring judgement and experience to the deliberations of the board that the executive directors on their own would lack.

Non-executive directors are not only expected to bring a wide range of skills and experience to the deliberations of the board, particularly in the area of strategy and business development, but also to ensure that there is a suitable balance of power on the board (King, 2002).

Myburgh (2003) advocates a ratio of one executive director for every three non-executive directors arguing that it is better for non-executive directors to outnumber executive directors by a large margin since such a composition makes for a more objective and balanced environment. However, BSD (2005) notes that the dilemma is that having fewer executives poses a greater risk of distortion or withholding of information, or a lack of balance in the management contribution to the boardroom debate whilst having a large number of executive directors may render the deliberations too operational and the answers are given before questions are asked.

According to Higgs (2002) the role of the non-executive director is frequently described as involving both the monitoring of executive activity, and contributing to the development of strategy and adds that the role of the non-executive director is therefore, both to support executives in their leadership of the business, and to monitor and supervise their conduct.

Tyson (2003) advocates that that effective non-executive directors need experience relevant to carrying out these four broad responsibilities:

- to provide advice and direction to a company's management in the development and evaluation of its strategy;
- to monitor the company's management in strategy implementation and performance;
- to monitor the company's legal and ethical performance; and
- to monitor the veracity and adequacy of the financial and other company information provided to investors and other stakeholders.

The results of an Ernst & Young survey of 187 board members of the FTSE 500 companies in November 2001 as quoted in the research report of Louis (2002, p. 13) found that:

- 96% of respondents believed that the role of the non-executive director was either fairly valuable or very valuable.
- 79% valued non-executive directors' insight or experience.
- 64% believed that the influence of non-executive directors will increase.

A special report in The Economist (2004) noted that being a non-executive director used to be a lovely job for distinguished people with a little time to spare but that changed post the Enron scandal in 2002. Thompson (2005) notes that directors often have inadequate time and a limited knowledge base to sufficiently meet their long list of responsibilities.

Payne (2000) as quoted in Naidoo (2002, p. 59) says, "To the extent that corporate governance is about the balance of power, the non-executive director is the fulcrum that ensures the balance".

2.7 Appointment of non-executive directors

Non-executive directors are generally appointed by the board of directors or shareholders on the recommendation of a nominations committee through a transparent and formal process (King, 2002).

In terms of the Banks Act (1990), the Registrar of Banks has the power to object to the nomination of a non-executive or executive director of a bank and to gather information on directors of a bank in order to exercise a qualitative judgement on candidates for appointment. This section also allows the Registrar to remove or replace serving directors or to restrict their powers and to disqualify individuals from being directors of banks.

Despite this, the findings by BSD (2005) on the selection process for nominating non-executive directors indicates that the selection process was fairly informal in the banks under review, and based largely on personal contacts, friendships or industry referrals.

Although a Nominations Committee was established as per the recommendations of King (2002) for the process of interviews, this was often a formality, and the choice of candidate was a *fait accompli*. It was also discovered during the review that none of the directors interviewed had applied for their appointments or were nominated through a formal request for nominations targeted to wider society than individuals closely associated with individual directors of the bank.

According to Ingley and van der Walt (2003), the selection and appointment of directors should be because of their contribution to the board as a strategic resource of the organisation. They argue that companies cannot take the risk of having directors who cannot contribute and directors themselves must be comfortable that they have the experience and knowledge to serve, that they know the risks, and that they are prepared to take them.

South African banks who are signatories to the Financial Sector Black Economic Empowerment Charter launched on 17 October 2003, have also committed themselves to a target of 33% black people and 11% black women on the board of directors by 2008.

2.8 The duties of the board of directors

According to the Corporate Directors Handbook (2004), a primary responsibility of the board of directors is to oversee the operation of the business and the affairs of the corporation whilst observing high standards of ethical conduct to protect the interest of the company including its reputation.

Burke (1993) concurs that board members are legally responsible for the management of the corporation and have a duty to protect the interests of the shareholders and provide an adequate return on investment to them.

Higgins (2004) sums it up when she says that directors duties are onerous and the risk is compounded by director's ignorance of their duties

According to Naidoo (2002), the most important responsibilities of the board include:

- determining the company's strategic direction and formulating appropriate company policies to give effect to these;
- delegating authority where appropriate to management and monitoring the exercise of the delegated powers on an ongoing basis;
- monitoring and supervising executive management to ensure the proper implementation of company policies;
- ensuring the company has adequate systems of financial and operational control;
- being accountable and ensuring compliance with all laws and regulations and codes of business practices;
- ensuring effective communication between the company and its internal and external stakeholders about the business of the company; and
- finding the correct balance for the company between conforming with governance constraints and rendering an acceptable return for its shareholders.

However, since banks are regarded as special institutions that fulfil a unique role within a modern economy, the directors of banks are required to exercise a greater degree of care and skill than other companies (BSD, 2005).

Garratt (2002) refers to the *Ten Directorial Duties* proposed by the Commonwealth Association for Corporate Governance (CACG) founded on the established corporate governance values of accountability, probity and transparency and the essence of international company law over the last three centuries. Duties for all boards and individual directors are:

1. Duty of Legitimacy (operating within the law)
2. Duty of Upholding the Director's Primary Loyalty (to the company)
3. Duty of upholding the director's primary role (to drive the enterprise forward whilst keeping it under prudent control)
4. Duty of upholding the company in trust (fiduciary duty)
5. Duty of ensuring critical review of proposals to the board
6. Duty of ensuring directorial care (in decision-making)
7. Duty of upholding the three values of corporate governance
8. Duty of upholding the rights of minority owners
9. Duty of ensuring corporate social responsibility
10. Duty of ensuring board learning, development and communication

2.9 Duties of the board of directors in terms of the Banks Act, 1990

The liability of board of directors of a bank is stipulated in the Banks Act, 1990 and gives the Registrar of Banks the power to institute action in terms of section 424 of the Companies Act, 1973 against any director (as well as the chief executive officer and executive officer of the bank) who was knowingly party to the conduct of the business of the bank.

The Banks Act (1990) also codifies the duty of care and skill owed to a company. The main purpose is to provide depositors who provide the main source of funding of banks with some form of protection against the mismanagement of the business of the bank by directors and officers.

Directors of a bank are obliged in terms of the Banks Act (1990): to stand in a fiduciary relationship to the bank, to act honestly and in good faith, and, in particular, to exercise the powers they have to manage or represent the bank exclusively in the best interest and for the benefit of the bank and its depositors.

The banking regulations, in general, prescribe that the board of a bank is ultimately responsible for ensuring that an adequate and effective process of corporate governance, which is consistent with the nature, complexity and risk inherent in the bank's balance sheet activities and which responds to changes in the banks environment and conditions (Myburgh, 2003).

In particular, the banking regulations state that all directors of a bank shall perform their functions with diligence and care and with such a degree of competence as can reasonably be expected from persons with their knowledge and experience. It is the duty of every director of a bank to ensure that risks that are of necessity taken by such a bank in the conduct of its business are managed in a prudent manner.

2.10 Characteristics of effective non-executive directors

"The ultimate measure of a man is not where he stands in moments of comfort, but where he stands at time of challenge and controversy," Martin Luther King

The South African Qualifications Authority (2000) regards competence as the application of knowledge, skills and values within a specific context.

Garratt (2003) contends that most directors are ill- prepared for the roles they are expected to play. He argues that there are fundamental differences between "managing" and "directing" an organisation and that most current "board directors" are in reality merely rebadged managers. He therefore draws a distinction between directorial competence and executive competence and says that in future, directorial competence of the board of directors needs to be measured and rewarded because the assumption can no longer be made that friends of the Chairman or CEO, who are executives from other companies, will automatically make effective directors.

"Although the law does not separate the competencies of executive and non-executive directors and all directors bear joint responsibility for the affairs of a corporation, the intended role of non-executive directors is quite clear. They are to provide an independent assessment of executive performance while being accountable for the power they vest with the executives" (In Search of Good Directors, page 42 as quoted in Myburgh, 2002, p. 67).

However, Naidoo (2002) contends that directors are often not picked for their ability to challenge management and are often chosen for their business, personal or political ties, or else for their ability to add symbolic lustre to a company's board.

Wixley and Everingham (2002) argue that the effectiveness of a board of directors depends on the people involved. If a board is to function effectively, all its directors must have a good understanding of the company's business. It is therefore important that non-executive directors are empowered to obtain this understanding. Higgs (2002) concurs, arguing that this is essential to gain credibility and reduce the inevitable disparity in knowledge between executive and non-executive directors but that developing such knowledge cannot be done within the confines of the boardroom alone.

Non-executive directors should be cognisant of the economic, social and political milieu in which the company operates and have an understanding of the availability of resources including financial, human and technical resources and the level of current and proposed investments (King, 1994).

Non-executive directors of a bank should be individuals of calibre and credibility, and have the necessary skill and experience to bring judgement to bear independent of management, on issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance (King, 2002).

Xiaolin (2005) state that whilst directors should have a minimum professional knowledge for managing the company, the knowledge does not need to be of financial nature.

Thompson (2005) contends that dedication, energy, time commitment and skills of the directors, the quality of their information, the leadership of board discussions and the level of openness, transparency and trust in the relationships among directors with top managers are important for effective board performance.

Ingley and van der Walt (2003) refer to the work of Balgopal and Vassil (1983) who contend that the knowledge that members bring, being open to alternative points of view, experiencing satisfaction and pleasure in what they do, possessing a strong sense of self esteem, and being able to communicate effectively with others without dominating, are essential resources that each member brings to the well-functioning group.

In the broadest sense, the various types of diversity that may be represented among directors in the boardroom include: age, gender, ethnicity, culture, religion, independence, professional background, knowledge, technical skills and expertise, commercial and industry experience, career and life experience (Mililiken and Martins, 1996 as quoted in Ingley and van der Walt, 2003).

Ingley and van der Walt (2003) refer to the writings of Forbes and Mililiken (1999) and Mililiken and Martins (1996) and state that boardroom diversity refers to the mix of human (intellectual and social) capital, where human capital is defined as the skills, general or specific, acquired by an individual in the course of training and experience that a board of director comprises collectively and draws upon in undertaking its governance function. These attributes are labelled “visible” and “less visible” types of diversity. Types of visible diversity include observable attributes (race, ethnic background, age, gender) while less visible diversity relate to underlying attributes (education, technical capabilities, functional background, board tenure, socio-economic background, personality characteristics, values, skills, knowledge, occupational background, range of industry experience).

Each director should bring to the company their knowledge, business and other experience and judgement. Because being a "director" is to "direct", this means that they should be informed, participate, ask questions, apply considered business judgement and when necessary bring a matter to the boards attention. (Corporate Director's Handbook, 2004).

Garratt (2003) refers to the basic personal, human values of humility, honesty, trust, frugality and accountability and notes that the board of directors is composed of individuals with very different characteristics, experiences and even within themselves complex mixes of sources of personal power.

Extracts from the NACD Blue Ribbon Commission Report on Director Professionalism (2001, pxi) as quoted in Myburgh (2003) describe the accepted governance paradigm as management being accountable to the board and the board being accountable to shareholders.

In addition, Basel (2005) advocates that the board of directors of a bank should have a sound knowledge of each of the types of material financial activities the bank intends to pursue and that the board should have sufficient collective knowledge and expertise to enable effective governance and oversight.

BSD (2005) contends that a key aspect of the supervisory process is an evaluation of the competence, integrity and qualifications of the board of directors. A bank board should individually and collectively comprise persons with banking experience, other business experience, personal integrity and relevant skill. In addition, there should be a blend of knowledge and commitment to the board. The risk exposure of a bank is one of the factors that influence the composition of skills residing on a bank board.

BSD (2005) found that during the reviews conducted, the general consensus was that while a director may have knowledge and experience in a particular field, or possess the requisite skills or qualifications to earn a seat on the board, this did not guarantee that these qualities would be utilised in a meaningful way so as to be of value to the board of directors of a bank.

Myburgh (2003) draws a distinction between the personal characteristics of directors and the core competencies of the board of directors in that directors should possess all of the following personal characteristics:

- Integrity and accountability because character is the primary consideration in evaluating any candidate for board membership.
- Informed judgement and the ability to provide wise, thoughtful counsel on a broad range of issues, ranks high among the quality sought in any director.
- Financial literacy as one of the most important roles of a board is to monitor financial performance.
- Mature confidence and the ability to communicate persuasively as demonstrated by directors who value board and team performance over individual performance,

who possess respect for others, facilitate superior board performance, have an openness to other opinions and the willingness to listen.

- High performance standards because in today's highly competitive world, only companies capable of performing at the highest levels are likely to prosper.

Myburgh (2003) expands on the competencies detailed in the National Association of Corporate Directors Blue Ribbon Commission Report on Director Professionalism (2005), and recommends that the board as a whole, should possess all of the following competencies with each candidate contributing knowledge, skills and experience in at least one domain:

- Accounting and finance, because among the most important missions of the board is ensuring that shareholder value is both enhanced through corporate performance and protected through adequate internal financial controls.

- Business judgement, because shareholders rely on directors to make sensible choices on their behalf.

- Management, because in order to monitor corporate managers, boards need to understand management trends in general and in relevant industries.

- Crisis response, because the ability to deal with crises can minimise very negative ramifications and limit the impact on firm performance.

- Industry knowledge, because companies continually face new opportunities and threats that are unique to the industries.

- International markets, because in order to succeed in an increasingly global economy companies directors need to appreciate the importance of global business trends.

- Leadership, because ultimately, a company's performance will be determined by the directors' and CEO's ability to attract, motivate and energise a high-performance leadership team.

- Strategy/vision as a key board role is to approve and monitor company strategy, so as to ensure the company's continued high performance.

Higgs (2002) and Myburgh (2003) refer to the personal attributes required of the effective non-executive director of integrity, high ethical standards; sound judgement; the ability and willingness to challenge and probe; and strong interpersonal skills.

Tyson (2003) supported by Higgs (2002) on the personal attributes of effective non-executive directors notes that a non-executive director must exercise judgment based on knowledge about the company and the environment in which it functions and must be able to:

- Recognise problematic company actions or a flawed decision-making process.
- Identify issues of risk, and judge how, and when to raise them.
- Challenge and probe the information presented to them by company management and confront management and raise difficult issues.
- Have strong interpersonal skills so as to participate fully on a board of highly talented individuals, or to question the recommendations of powerful executives.

- Have sufficient strength of character to seek and obtain full and satisfactory answers.
- Have "independence of mind" that allows them to test and challenge executive thinking on the basis of their experience elsewhere.

However, experience alone, is necessary but not sufficient, for a place around the boardroom table. Many directors are not fully competent to perform a directing role because they tend to be over-trained as executives and under-trained as direction givers and because they obtain board appointments and directorships so late in their careers, it never occurs to them that they will have to be retrained to be competent directors (Garratt, 2003).

Tyson (2003) says that the model non-executive director must have relevant experience and adequate company knowledge. He or she must also be honest, ethical, challenging, able to express his or her views candidly and convincingly, engaged and independent of mind.

2.11 Induction, training and continuing education

"*The trouble with British boards is that they mark their own examination papers*." Lord Halifax

"I wish directors had to sit a PPE – Philosophy, Politics and Economics – examinations before being give a "licence to direct." Bob Garratt

In 1992 the Institute of Directors in London surveyed its members and found that less than 8% of them had even one day's training in being a director. In 2001, the percentage had only moved to 15% (Garratt, 2003, p. 68). This is supported by evidence in Tyson (2003) that indicated that the majority of UK companies might not be providing adequate training for both their executives and non-executives. A survey by Deloitte & Touche in 2003, as quoted in Tyson (2003, p. 18), indicates that 43% of companies reported that they provide formal training on appointment and 33% have a training/development programme that operates on an ongoing basis. 44% of companies are planning to introduce formal training and development processes in the future.

BSD (2005) echoed the sentiment expressed by Higgs (2002) that the effectiveness of directors is dependent not on their existing capability, but more on their willingness to extend and refresh their knowledge of, and skills pertaining to, the particular banking institution in which they were involved and advocated that boards should acknowledge that to be effective, they have to ensure that the resources for developing and refreshing the knowledge and skills of non-executive directors are provided.

King (2002) recommends that the board should establish a formal orientation programme to familiarise incoming non-executive directors with the company's operations, senior management and its business environment, and to induct them in their fiduciary duties and responsibilities. Directors should receive further briefings from time to time on relevant new laws and regulations as well as on changing commercial risks.

This is supported by Myburgh (2003). Although all the banks reviewed had an induction or orientation programme, they were advised to re-examine those programmes having regard to the bank's size and complexity and introduce continuing education programmes so as to ensure that non-executive directors are sufficiently knowledgeable to be effective and efficient board members.

Myburgh (2003) and BSD (2005) also noted that banks are not paying sufficient attention to relevant training, as opposed to induction, to equip newly appointed non-executive directors properly to discharge their duties and responsibilities but stressed that that directors of banks, especially non-executive directors, have to take responsibility for remaining abreast of developments in their bank as regards risk taken and the management of these risks.

Myburgh (2003) argues that because the business of a bank is so complex, it is impossible for a non-banker non-executive director to acquire knowledge of the bank's business and the risks associated with it by attending four to five board meetings a year. He further states that a good induction programme and continuing education are no substitute for " on the job training" by serving on at least one board committee, as a minimum. His argument is that this will prevent a disparity of knowledge being created among the non-executive directors which may have consequential effects of creating two classes of non-executive directors: one which can make a meaningful contribution to the board and another, which cannot.

Raber (1988) observed that the fasted growing are of executive education in the United States was director education.

Tyson (2003) notes that although board training is currently available in the UK in various forms, there are possible gaps between what providers of training are offering, and what companies need. He therefore recommends an initiative to bring together companies and training providers to establish guidelines to ensure that training programmes for directors are providing what is needed, and that useful information about such programmes is easily accessible on a timely basis.

Tyson (2003) explains that there are 4 different genres of training:

1. Introductory seminars and courses offered to potential non-executive director candidates.
2. Induction training that is usually firm-specific.
3. General training on board effectiveness and specific training in such areas as financial accounting offered via enrolment courses by business schools and consultancies either independently or in conjunction with each other and with other entities such as the IoD.
4. Customised non-executive director training and evaluation programmes for a specific company, created by business schools or consultancies in consultation with senior management working in conjunction with a board-level champion.

Garratt (2003) contemplates that it is strange that there is such general acceptance that those given the most important jobs in the organisation – directing its future so that all those employed or associated with it create wealth and employment for the owners and their wider society, should have no training for them. Higgs (2002) agrees that relevant experience and company specific knowledge are not enough to make an effective non-executive director.

BSD (2005) highlighted training as an area of concern as it was found that none of the banks reviewed had a formal induction programme in place, and that some directors were not aware of critical regulatory requirements that impacted on their banks. The report also found that informal induction programmes assumed various forms including the practice of inviting nominees to attend board meetings for a period of time to familiarise themselves with board proceedings and the expectation the board has of serving directors, while they await authorisation of their appointment from BSD; being provided with an information pack by the company secretary, which include the bank's annual report, previous minutes of the board, applicable legislation and other essential documents; visits to branches or business units of the bank; informal meetings with management; presentations by experts on relevant topics related to the activities of the bank; and sponsoring courses on corporate governance offered by the IoD.

As quoted in Myburgh (2003) one of the conclusions of the Listings Standards Committee in advocating the need for induction programmes and director education was that it is not sufficient to only give directors the tools to do their jobs, but it is also necessary to ensure that they know how to use those tools.

Myburgh (2003), referring to Higgs (2002), is of the view that to be effective, newly appointed non-executive directors quickly need to build their knowledge of the organisation to the point where they can use the skills and experience they have gained elsewhere for the benefit of the company. He contends that companies should also acknowledge that to run an effective board they need to provide resources for developing and refreshing the knowledge and skills of their directors, including the non-executive directors.

Tyson (2003) predicts that as non-executive director responsibilities continue to expand, companies will have to provide ongoing training opportunities. According to research cited by Melville-Ross (1996), 65% of respondents from financial institutions, the financial press and the big accounting firms, thought it was essential for directors to be trained, not only on joining the board but regularly thereafter. Sweeney (2004) argues that it is only through ongoing educational and training programmes that directors learn the full scope of their responsibilities and duties.

Harris (2002) contends that companies ought to invest in ensuring that board members are up to speed with the latest trends and issues and says that there is a growing attendance by directors at corporate governance seminars because traditional business schools do not deal with the subject. There are also efforts by the Institutional Shareholder Services (ISS), the largest proxy advisory firm in the United States, to introduce a Corporate Governance Quotient that will rate companies from zero to 100 on how well they follow corporate governance practices. One category in particular, will deal with continuing education programmes for directors.

The Institute of Bankers (2006) has conducted a review of specific courses open to directors at South African business schools as per Appendix B.

Xiaolin (2005) says that to enhance the working efficiency of the board of directors, in the UK, a board association has been formed who will prescribe criteria for board of directors and write guidance for the training of directors which is regarded as an important aspect for corporate governance improvement.

According to Garratt (2003), many non-executive directors recruited to boards are merely executive directors from other boards and few will have directorial training and assessment. He finds this strange considering the important role of non-executive directors and contends that training budgets disappear long before they reach board level because of the notion that past experience is sufficient. He also discovered that where director training exists in companies, it is usually semi-legalistic in nature and very "compliance-oriented" in that it focuses on a "tick-box" approach and there is an in-built assumption that once all boxes are ticked no further action is needed and therefore the strong message from the selectors on appointing a director is*: "Well done! Now turn up and shut up. You will pick it up as you go along. Don't argue with the existing power players"* (Garratt, 2003, p. 68).

2.12 Director professionalism

The argument is that until the board director role is professionalised, and the supremacy of the board as the ultimate decision making authority is reasserted, full confidence in business or the markets will not be restored and there is a growing acceptance of the need for a "licence to direct" (Garratt, 2003).

"No longer will it be ok to recruit to your board a mixture of golf club friends, executives from other companies on whose board you sit, or that dreadful chilling phrase so commonly used of US listed companies – " ten friends of the Chief Executive, a woman and a black". (Garratt, 2002, p. 11)

The Institute of Directors of London has developed accreditation for Chartered Director status awarded through the Privy Council, but as Garratt (2003) explains, even Chartered Director status cannot guarantee directorial competence. Competence comes from using a combination of appropriate knowledge, attitudes and skills. The present IoD examination process does not attempt to assess skills in a specific situation, but it does guarantee both a certain level of assessed knowledge and attitudes and 5 years of real directorial experience (not merely single functional experience).

2.13 The concept of the Chartered Director

"For many years it was assumed that directors did not need specific training for conventional wisdom dictated that business experience was qualification enough" (Reynolds, 2002, p. 27).

As a result of the concern, especially from the Registrar of Banks, that not enough is being done to ensure that directors are receiving sufficient training to do their jobs properly, the South African chapter of the IoD plans to launch the designation of

Chartered Director in 2007 following the UK example (Rose, 2006). This status shows that the holder has invested time in obtaining the qualification, has acquired substantial knowledge in the process and is committed to a code of conduct (Reynolds, 2002).

The designation of Chartered Director would be conferred on those directors able to demonstrate proven knowledge and expertise that sets them apart from the average incumbent or new board appointee. Individuals interested in obtaining the designation would register with the IoD as a candidate. There will be some form of basic entry requirement such as age, years of experience as a director and IoD membership. Candidates would then complete an examination and peer-review process, and if successful in both, would be required to adhere to a code of conduct and commit to a continued professional development programme (Business Day, 2005).

Reynolds (2002) writing on the designation of Chartered Director in the UK, highlights that the Chartered Director status is a benefit for both the director and the company: the company gains added perspective and experience and the individual can approach highlighted problems with a confidence in his or her professionalism. In the UK, there are three stages. First, an exam covering five topics: the director's role, finance, marketing, human resources, strategy, and improving business performance. This is followed by a review of the applicant's professional background. Candidates must submit a self-evaluation form of their experience as a director. Lastly, a personal interview is undertaken with two senior members of the IoD. Following approval, candidates must adhere to the IoD's code of professional conduct, and must agree to commit themselves to at least 30 hours of further continuing professional development each year.

Skapinker (2001) describes a similar process to obtain the designation of Chartered Director in the European Union, and notes that whilst there is no legal requirement for directors to obtain a qualification of this sort, chartered directors are likely to inspire greater confidence in their companies' banks, investors, suppliers and customers by providing additional evidence that their board operates with high professional standards and integrity.

2.14 Conclusion

In light of the literature cited, there has been no prior academic or business research done on the specific topic of the training of non-executive directors of banks. This research project will attempt to provide some insight into what is required to address this problem. However, it is not intended to be an in-depth investigation into the matter.

CHAPTER 3: RESEARCH QUESTIONS

3.1 Introduction

As highlighted in Chapter 1, the aim of this research is to contribute to the current debate and understanding of what interventions are needed in order to respond to the call by the Registrar of Banks for greater training of non-executive directors of banks and to answer the following questions:

A. What is the current status of training of non-executive directors of banks?

B. Where should any training intervention be focused?

C. How should the impact of any training intervention be measured?

3.2 The research questions

The literature presented in Chapter 2 does not provided a comprehensive solution to the research objective in a South African context, and therefore, the following research questions need to be answered:

Research Question 1: What training programmes are currently available to non-executive directors of banks?

Research Question 2: What skills, knowledge, experience and competence should the ideal non-executive director of a bank possess?

Research Question 3: What are the expectations of stakeholders including regulators, investors and industry bodies of the skills, knowledge, experience and competence of non-executive directors of banks?

Research Question 4: What are the identified training gaps?

Research Question 5: What should the core content of a training programme be?

Research Question 6: What is the best methodology to deliver such training?

Research Question 7: How should the impact of such training be measured?

The interview guide for the qualitative research was developed around these questions. These questions were expanded for inclusion in the research questionnaire during the quantitative research phase and are discussed in more detail in Chapter 4.

CHAPTER 4: RESEARCH METHODOLOGY

This chapter sets out the methodology that was used to answer the research questions outlined in Chapter 3. It explains the population, the sample size, the research instrument used, how data was collected, and the process of data analysis. The limitations of the research will also be discussed.

4.1 Research method

According to Leedy and Ormrod (2001), the methodology to be used for a particular research problem, must always take into account the nature of the data that will be collected in the resolution of the problem.

Punch (2000) explores the qualitative-quantitative distinction and argues neither approach is better than the other, that both are needed, that both have their strengths and weaknesses, and that they can and should be combined as appropriate. Methods and data used (qualitative, quantitative or both) should follow from, and fit in with, the question(s) being asked and need to be matched with each other in the research study. Hussey and Hussey (1997) write that it is not unusual in business research to take a mixture of approaches when collecting and analysing data because this facilitates a broader, and often complementary view of the research problem.

Hussey and Hussey (1997) describe the term triangulation as the use of different research approaches, methods and techniques in the same study that can be used to overcome the potential bias of a single-method approach. One of the types of triangulation identified by Easterby-Smith, Thorpe and Lowe (1991) as referred to in Hussey and Hussey (1997), is methodological triangulation where quantitative and qualitative methods of data collection are used. However, Hussey and Hussey (1997) refer to the work of Jick (1979) where he cautions that although triangulation encourages productive research, enhances qualitative methods and allows the complementary use of quantitative methods, replication is exceedingly difficult to perform where a mixed method approach has been used.

Therefore, in order to enhance the research, a mixed method approach, combining qualitative interviews with a quantitative survey, has been used. Each method is described in greater detail below.

4.1.1 Qualitative research

The objective of this research is to investigate the training of non-executive directors in South African banks. To date there have been no major studies conducted on this topic, nor is there specific literature available on the topic. The intention of this stage of the research was to obtain an approximation of the results and information in order to structure the quantitative questionnaire. " Not every research study is designed to estimate some characteristics of or generalise to a population. In an exploratory study, a researcher may only want to get a sense of what respondents are thinking, believe, or feel about a topic, information that may be useful in designing a larger and more comprehensive study at a later time" (Czaja and Blair, 1996, p. 112).

Creswell (1994) as quoted in Punch (2000) say that when collecting qualitative data, the researcher is seen as the primary instrument for data collection and analysis and that qualitative data is mediated through this human instrument, rather than through other instruments.

Two sources were used to explore and determine the responses to the stated research questions:

- A search of the literature and other work done on and around this topic, references to director training in general literature
- Semi-structured, in depth interviews with relevant participants

4.1.1.1 Sampling method

Czaja and Blair (1996, p. 107) state that "Most of what we do in surveys relies on common sense. In sampling, for example, we need to think about which population we want to study, what list or resource we can use that includes this population, how good that resource is, what problems we might encounter, and how we can overcome them".

This is reiterated by Leedy and Ormond (2001) as quoted in the research report of Mariano (2002, p. 40) where it is stated that " Rather than sample a large number of people with the intent of making generalisations, qualitative researchers tend to select a few participants who can best shed light on the phenomenon under investigation".

The most appropriate sample for this study was a purposive (non-probability) and subjective (non-probable) sample because participants were specifically chosen in terms of access, knowledge and level of interest in contributing to this study. The population for this stage of the research included all executive directors of banks, non-executive directors of banks, industry bodies and corporate governance experts. Given the extent of the population, the research sample was chosen on a non-probable sample basis through a combination of convenience and purposive sampling based on:

- Access and availability
- Willingness to participate
- Cost and time constraints

Welman and Kruger (2001) are of the opinion that purposive sampling is the most important kind of non-probability sampling because researchers rely on their experience and ingenuity to deliberately obtain units of analysis in such a manner that the sample they obtain may be representative of the relevant population. A combination of convenience and judgemental sampling was used to identify respondents, who because of their position or experience, could be described as opinion makers and were therefore best placed to contribute information that would assist in structuring the quantitative survey questions to be asked in order to answer the research questions outlined in Chapter 3.

Hussey and Hussey (1979) describe judgemental sampling as being similar to snowball sampling: participants are selected on the strength of their experience of the phenomenon under study.

The research sample consisted of 9 participants as detailed in Appendix E. It was not deemed necessary to increase the sample size at this stage of the research. Punch (2000) notes that qualitative sample sizes tend to be small, with no statistical grounds for guidance.

4.1.1.2 Construction of the Interview

An interview guide (Appendix C) was developed based on the research questions stated in Chapter 3. Welman and Kruger (2001) describe an interview guide as involving a list of topics and aspects or these topics that have a bearing on a given theme. They further state that semi-structured interviews offer a versatile way of collecting data and that although all respondents may be asked the same questions, the interviewer can adapt the formulation and terminology, to fit the background and educational level of the respondents.

All respondents were personally contacted either telephonically, or in-person, and the purpose of the research project and the interview explained. Meetings were then scheduled either for in-person or telephonic interviews. Four of the interviews were conducted at the individual's place of work, and two were conducted telephonically at a time convenient to the interviewee. Each face-to-face interview lasted approximately 1 hour and each telephonic interview approximately 30 minutes. This aligns with the advice of Czaja and Blair (1996) who estimate that telephone interviews typically take from 10 to 20 minutes or so to administer and in-person interviews commonly run 30 minutes to an hour.

This research method was regarded as appropriate during the initial stages of the research project to gather information not publicly available, or too new to be found in the literature.

4.1.1.3 Data analysis

It is accepted that whilst the data collected was invaluable for this research, it has questionable validity for the following reasons:

- It was highly subjective
- It was not representative of the population.
- It was not of sufficient breadth or depth to be statistically valid.

The data lent itself to content analysis which Welman and Kruger (2001, p195) describe as " A special application of systematic observation occurs in the content analysis of personal documents and mass media material."

All responses were recorded in writing so that direct quotations and observations could be used during the interpretation of results.

According to Krippendorf (1980) as referred to in Stemler (2001), six questions must be addressed in every content analysis:

1. Which data are analysed?
2. How are they defined?
3. What is the population from which they are drawn?
4. What is the context relative to which the data are analysed?
5. What are the boundaries of the analysis?

6. What is the target of the inferences?

Stemler (2001) says that content analysis extends beyond simple word counts and what makes the technique particularly rich and meaningful is its reliance on coding and categorisation of the data. The basics for categorisation are to group words with similar meaning or connotations.

In order to improve the reliability of findings, an additional independent reviewer was requested to assess the raw data in order to check the extent to which the findings, as assessed by this investigator, were reliable (Glaser & Strauss, 1967).

The results and themes arising from the interviews were then used, in conjunction with the literature review, to design the quantitative questionnaire.

4.1.2 Quantitative research

Punch (2000) writes that quantitative data collection instruments include questionnaires and the choice of instrument depends on the particular study.

4.1.2.1 Data collection methodology

Hussey and Hussey (1997) state that a survey is a positivistic methodology whereby a sample of subjects is drawn from a population and studied to make inferences about the population. Descriptive surveys are frequently used in business research in the form of attitude surveys.

By using the information gathered during the semi-structured interviews described in 4.1.1 above, and the review of the literature outlined in Chapter 2, a survey questionnaire was developed to use as a quantitative data collection instrument.

Czaja and Blair (1996) explain that surveys are based on the desire to collect information (usually by questionnaire) about a well-defined population and typically contain a series of related questions for the respondents to answer.

The questionnaire was designed according to the guidance of Czaja and Blair (1976) who note that most questionnaires consist of:

- An introduction so respondents are given enough information about the survey to induce their cooperation.
- Respondent selection especially where the unit of analysis is the individual.
- Substantive questions which is the heart of the questionnaire, accounts for the majority of the data, and where questions are asked to address each aspect of the research goals.
- Background questions so as to obtain demographical information about the respondents including age, race, sex, and education. This information is also important to assess the representativeness of the sample.

A combination of closed questions, where the respondent's answer was selected from a number of predetermined alternatives, and open-ended questions where each respondent could give a personal response or opinion in his or her own words was used (Hussey and Hussey 1997).

This was regarded as an appropriate data collection tool for the following reasons:

- The instrument is familiar to most people.
- It could uniformly be presented to the sample group.
- Respondents could receive the questionnaire via e-mail and could complete it in their own time.
- It was cost effective to develop and easy to administer.
- There was no undue influence or prompting from the researcher as to what the responses should be.
- A comments section was provided so that respondents could explain their responses.

However, it was accepted when this data collection tool was chosen that there was a possibility of a low response rate to the questionnaire given the medium via which it was distributed. To counter this potential problem, the following was done:

- The e-mail included an outline of the purpose of the research and a description of the potential contribution this research could make
- Confidentially of individual responses was guaranteed
- As an incentive, respondents could request a copy of the final research document
- Where appropriate a follow-up e-mail with another copy of the questionnaire was sent within a week of the original mail

Selwyn and Robson (1998) note that the principal feature of using e-mail as a research tool is the speed and immediacy it offers. They go on to explore the use of electronic questionnaires and say that aside from higher response rates, electronic questionnaires cost considerably less to administer both in terms of money and time, and e-mail offers the researcher slightly more 'control' over the questionnaires once they are sent. However, it is virtually impossible to guarantee respondent anonymity as their name or e-mail address is automatically included in the reply. Thatch (1995) quoted in Selwyn and Robson (1998) points out, this lack of anonymity does not preclude the researcher still guaranteeing the respondent confidentiality.

The effect of sampling bias was unknown but it is generally regarded as a cost effective and fast method of distributing a survey.

4.1.2.2 Sampling methodology

As mentioned earlier, most of what is done in surveys relies on common sense and in sampling it is necessary to consider the population to be studied, what list or resources that includes this population, how good that resource is, what problems might be encountered, and how they can be overcome.

For purposes of this stage of the research, the population of relevance which Czaja and Blair (1996) describe as the group or aggregation of elements to be studied, the group to which the results of the study can be generalised consisted of all key South African banking officials as follows:

- Non-executive directors
- Executive directors
- Banking Industry bodies
- The Bank Supervision Department of SARB/ Regulators
- Analysts/ investors
- Company secretaries of banks

- Training consultants
- Corporate governance experts

The most appropriate sample for this study was a purposive (non-probability) and subjective (non-probable) sample because participants from each of the groups were specifically chosen on a non-random basis in terms of access, knowledge and contribution to this study. It is accepted that the degree to which the sample differs from the population remains unknown.

A combination of the academically recognised snowball sampling and convenience sampling techniques were used as it was cost prohibitive and inconvenient to locate respondents in this situation using any other sampling technique. According to Czaja and Blair (1996) snowball sampling is used when the sample units are rare or hard to find. One assumption underlying this method, is that people with similar characteristics or attributes are likely to know each other. A more general assumption is that individuals without characteristics may know others who have it. However, they caution that while there is truth to the underlying premise of snowball sampling, it also has the flaws typical of a non-probability sample in that the inability to estimate a range of error for the sample results seriously undermines the credibility of final study. In addition, it is accepted that this technique reduces the likelihood that the sample will represent a good cross section of the population.

The second technique used was convenience sampling, given the difficulty in accessing the sample group.

Based on the level of accuracy required, level of confidence in the results and budgetary and time constraints, an appropriate sample size was determined as a compromise (see Table 4.1).

Table 4.1: Sample Group

Group	Sample
Current or previous non-executive directors of banks	8
Current or previous executive directors of banks	8
South African industry bodies	3
Analysts/ investors	2
Company secretaries of banks	3
Training consultants	2
Regulators	1
Corporate governance experts	3
Total sample	**30**

It was not deemed appropriate to increase the sample size, as this would not enhance the study.

A list of potential respondents was drawn up with the intention of obtain a cross-section of views. Email addresses were sourced and a personalised email sent out to each of the sample group.

Table 4.2: How data was collected

Sample group	How data was collected
Non-executive directors	• The company secretaries of banks were contacted and asked to forward questionnaire to the members of their board of directors. • Where contact details were available and accessible, directors were contacted directly. • The Banking Association of South Africa was also requested to facilitate access to this sample group. • Referrals from other respondents • Responses were emailed to smartin@africanbank.co.za, faxed to

	011-2569306 or handed in physically at 59 16th Road, Midrand
Executive directors	• The company secretaries of banks were contacted and asked to forward questionnaire to the members of their board of directors. • Where contact details were available and accessible, directors were contacted directly. • The Banking Association of South Africa was also requested to facilitate access to this sample group. • Referrals from other respondents • Responses were emailed to smartin@africanbank.co.za, faxed to 011-2569306 or handed in physically at 59 16th Road, Midrand
Industry bodies	• Contacted directly telephonically or via e-mail • Questionnaire e-mailed for completion and return • Responses were emailed to smartin@africanbank.co.za or faxed to 011-2569306
Analysts/ investors	• Contacted directly telephonically or via e-mail • Referrals by other respondents • Questionnaire e-mailed for completion and return • Responses were emailed to smartin@africanbank.co.za or faxed to 011-2569306
Company secretaries	• Contacted directly telephonically • Questionnaire e-mailed for completion and return • Responses were emailed to smartin@africanbank.co.za
Training consultants	• Contacted directly telephonically or via e-mail • Referrals by other respondents • Questionnaire e-mailed for completion and return • Responses were emailed to smartin@africanbank.co.za or faxed to 011-2569306
Corporate governance experts	• Contacted directly telephonically or via e-mail • Referrals by other respondents • Questionnaire e-mailed for completion and return • Responses were emailed to smartin@africanbank.co.za or faxed to 011-2569306

The methodology described above, was found to be a versatile way to collect data.

4.1.2.3 Data analysis process

The data was inputted into a Microsoft Excel spreadsheet to facilitate analysis.

The data collection method and research instrument used did not lend itself to any inferential statistical analysis. For this reason, descriptive statistical analysis was conducted, which allowed for frequency analysis on the closed questions contained in the survey questionnaire.

The responses to open-ended questions were analysed using content analysis: this approach allowed respondents to provide insightful information that would have been lost otherwise.

4.2 Limitations of the research methodology

The following weaknesses have been identified in the chosen research methodology:

- A combination of qualitative and quantitative research methodologies has been used and therefore the data collection process cannot be easily replicated.
- Judgement sampling was used to identify respondents for the qualitative semi-structured interviews based on the author's personal knowledge of the sample group.
- There is a lack of literature on the specific research topic and no previous study of this sort could be sourced. This influenced the design of the quantitative survey questionnaire.
- The response rate for the survey questionnaire was dependent on the following factors:
    - Availability of, and access to, the non-executive and executive directors of banks

- The willingness of non-executive and executive directors of banks to participate in such a study within the confidentiality parameters. The voluntary nature of participation and the right of individuals to withdraw from the process is accepted.
- The willingness of banks to divulge details of their current training and induction programmes for non-executive directors.
- The timing of the research study due to time constraints of the respondents
- The willingness of industry bodies to facilitate access to the sample group.

The methodology selected was deemed appropriate for addressing the research problem. The data collected and the results of the analysis will be described in the chapters that follow.

CHAPTER 5: RESULTS

The results of the research are presented in terms of the qualitative and quantitative research methodologies described in Chapter 4.

5.1 Qualitative research

The primary objective was to obtain a cross section of views, on the research problem, through semi-structured interviews with a pilot group of 10 interested parties drawn from a broad population, to generate responses and insight that would form the basis of the quantitative study.

The content of each interview was analysed per question using frequency counts and content analysis to extract major themes from the data. The results are presented below in tabular format for ease of reference and are structured as per the order of the questions. Where appropriate, low frequency counts have been included for the purpose of the discussion of the results in Chapter 6. As described in Chapter 4, an additional independent reviewer was requested to assess the raw data in order to check the extent to which the findings, as assessed by this investigator, were reliable.

Table 5.1: Results of the qualitative research

Question as per interview guide	Response rate	Response
Question 1: What is the content of current training programmes conducted by individual banks for non-executive directors?	5/9	2/5 no industry initiative or standards 2/5 current formal programmes offered by business schools are not company/bank specific 1/5 done by banks themselves but focus on the operations
Question 2: What skills, knowledge, experience and competence should the ideal non-	5/9	5/5 background in banking and knowledge of banking related matters 3/5 independence/courage

executive director of a bank possess?		2/5 risk management 2/5 external/ macro-environment 2/5 financial skills 2/5 time 2/5 character traits Other responses included: • Leadership/management skill • Network • Wisdom • Integrity • Motivation to perform
Question 3: What are the <u>expectations of stakeholders</u> including regulators, investors and industry bodies of the skills, knowledge, experience and competence of non-executive directors of banks?	4/9	3/4 check and balance on executive
Question 4: What do non-executive directors of banks believe their <u>training needs</u> are?	5/9	4/5 Banks Act and Regulations 4/5 Companies Act 3/5 JSE Listings Requirements 3/5 National Credit Act 3/5 business/operations 2/5 Accounting standards Other responses included: • Risk management • Duties of directors • Financial skills • Industry issues
Question 5: What do non-executive directors of banks believe is the best <u>methodology</u> to deliver such training?	8/9	5/8 presentations 4/8 seminars 4/8 formal course 2/8 discussion forums Other responses included: • Interactive • Membership e.g. IoD
Question 6: How <u>frequently</u> is such training needed?	6/9	2/6 Annually 2/6 quarterly 1/6 every 6 months 1/6 half an hour before each board meeting
Question 7: Should there be a <u>certificate of competency</u> for non-executive directors?	6/9	5/6 Yes 1/6 No
Question 8: How should the <u>impact</u> of such training be measured?	7/9	7/7 board assessment/contribution

5.2 Quantitative research

The results presented in the subsequent tables are the result of an analysis based on frequency counts of the responses of twenty-seven respondents to a survey questionnaire (see Appendix D). The questionnaire contained both open-ended and closed questions. The results have been clustered around the research questions detailed in Chapter 3 and are presented together. For purposes of presentation of the results, all responses to open-ended questions have generally been grouped into key themes and where appropriate all responses are presented.

5.2.1 Research question 1: What training programmes are currently available to non-executive directors of banks?

Table 5.2: Specific training programmes

Question: 11. If a <u>specific training programme</u> was developed for a non-executive director that you believe to be effective, please could you tell me about it?
"Develop case studies of failed banks both locally and internationally and thoroughly evaluate the root cause for failure. Do the same for one or two success stories."
"The depth of experience cannot be learnt through a training programme. The selection criteria should be tightened up and more should be paid for the right skills."
"Not aware of any."
"Directors induction programme."
"It must focus on the basic laws that govern the banking sector. There must be a detailed briefing of the financial structure, KPI's, strategic plan and progress, key risks, and a detailed summary of the bank and its systems."
"At a high level the training programme appears to be well constructed. The execution of these courses and the internalisation and application of this knowledge amongst non-executive directors is, however, problematic."
"WITS Business school is supposed to be developing training programme in conjunction with banking supervision."
"Deloitte has developed specific training for NED re their duties and governance requirements. Also have specific training for NEDs of banks."
"A standard induction programme which is tailored for each individual's needs."

"Not aware of any open training for banking NEDs."

"The programme the NED bank directors should be based on the Institute of Directors series on Directorship, Corporate governance and Board Effectiveness. It should be amended to suit the banking industry."

"Course commissioned and developed by John Louw Mcknight and company and should be presented by full value services."

"The IOD programme on the role of boards and directors."

"I present training for directors relating to their duties, obligations and powers for institutions such as the IoD, GIBS, GIMT and the subsidiary directors of Standard Bank."

"Each year the directors approve a training framework for non-execs on topics like governance, compliance, banking products sales, risks and IT. This is presented by internal senior management or a specialist."

"Spending time in each major area. Global training. Access to library of global and local data for own studying. Constant presentations as to the current environment."

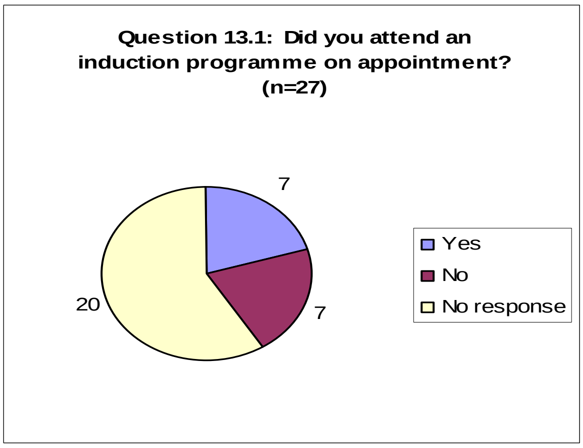
"An ideal programme would combine elements of theory and boardroom role play. A week long programme, once a year. Incorporate case studies of how other boards have dealt with difficult scenarios."

Table 5.3: Attendance at specific courses

Question 13.4 Have you attended any of these courses? (n=27)

GIBS Board Leadership Programme	0
GIMT Graduate Diploma in Company Direction	0
RAU Certificate in Corporate Governance	0
UNISA Public Sector Governance Programme	0
Wits Director Induction – JSE AltX	1
Other	3
No response	23

FIGURE 5.1 INDUCTION



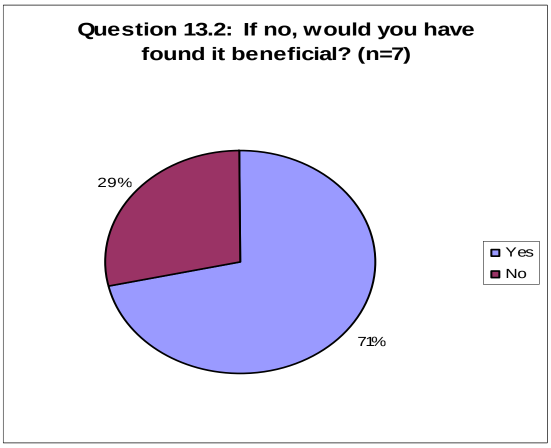


Table 5.4: Induction

Question 13.3 if Yes, Please rate <u>how beneficial</u> you found it?								
		Gender		Age Group			Race Group	
	Total	Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	7	4 57.1	3 42.9	1 14.3	3 42.9	3 42.9	4 57.1	3 42.9
1 = Very beneficial	4 57.1	1 25.0	3 100.0	1 100.0	2 66.7	1 33.3	1 25.0	3 100.0
2 = Beneficial	1 14.3	1 25.0	0 0.0	0 0.0	0 0.0	1 33.3	1 25.0	0 0.0
3 = Somewhat beneficial	1 14.3	1 25.0	0 0.0	0 0.0	0 0.0	1 33.3	1 25.0	0 0.0
4 = Not beneficial	1 14.3	1 25.0	0 0.0	0 0.0	1 33.3	0 0.0	1 25.0	0 0.0
Mean	1.86	2.50	1.00	1.00	2.00	2.00	2.50	1.00

5.2.2 Research question 2: What skills, knowledge, experience and competence should the ideal non-executive director of a bank possess?

Table 5.5: Most important attribute

Question 2. Which of the following is the most important <u>attribute</u> a non-executive director needs to effectively contribute to a board?								
		Gender		Age Group			Race Group	
	Total	Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	26	19 73.1	7 26.9	5 19.2	15 57.7	6 23.1	20 76.9	6 23.1
Expertise (knowledge and skills)	14 53.8	9 47.4	5 71.4	3 60.0	8 53.3	3 50.0	8 40.0	6 100.0
Experience	9 34.6	7 36.8	2 28.6	2 40.0	4 26.7	3 50.0	9 45.0	- -
Good personal values and character	3 11.5	3 15.8	- -	- -	3 20.0	- -	3 15.0	- -
No Response	1	1	-	-	-	1	1	-

Table 5.6: Biggest weakness

Question 4. In your experience with non-executive directors of banks over the last year, please select the area which shows the biggest weakness from the list below:

		Gender		Age Group			Race Group	
	Total	**Male**	**Female**	**Under 40yrs**	**41-50yrs**	**51yrs+**	**White**	**B/C/I**
	26	19 73.1	7 26.9	5 19.2	14 53.8	7 26.9	20 76.9	6 23.1
Technical knowledge and skills	13 50.0	10 52.6	3 42.9	3 60.0	7 50.0	3 42.9	9 45.0	4 66.7
Experience	7 26.9	4 21.1	3 42.9	1 20.0	4 28.6	2 28.6	6 30.0	1 16.7
Good personal values	4 15.4	3 15.8	1 14.3	1 20.0	2 14.3	1 14.3	3 15.0	1 16.7
Other	2 7.7	2 10.5	- -	- -	1 7.1	1 14.3	2 10.0	- -
No Response	1	1	-	-	1	-	1	-

Table 5.7: Reasons for weakness

4.1 Why do you think this is so?

“In my experiences, this was what I as an executive want valued”

“Not enough of an enquiring mind as to the issues that I have raised in 3 above”

“Limited success and individuals. Limited experience in big roles in big firms. Lack of breadth of skills”

“Experience in assessing and handling risk on all fronts is lacking. Successful people with experience are not keen to sit on bank boards as a non-exec these days”

“Unless there is a formalised training programme to train the non-execs on banking law and operations. It is unlikely that all will self-study because they are usually employed full time outside of the banking sector”

“Because it is often not asked for when the appointments is made”

“We have not had situations where the personal values and characters of directors were found to be wanting. It is not expected that all directors have the technical knowledge and skill but it is important for board members to understand the risks”
“Boards still rely on a few key board members to carry the board on complex decisions. Deep knowledge of key financial issues is not fully understood. There is a certain level of complacency regarding enforcement and prosecution”

“In my experience, it appears that certain individuals are focused on quick self gain and have little commitment to the task at hand. They tend to attend meetings rather than make valued contributions enhancing board performance”

“It takes time for non-executive directors to acquire broad knowledge of the banking group and its operations”

“My interaction with NEDs is mainly at a risk and audit committee level. At an audit committee level very few NEDs have remained technically up to date with the changing requirements of the new IFRS standards”

“Whilst I believe that experience is the most important attribute, knowledge and skills come a close second, and I generally find non-execs lacking in this area”

“In respect of new non executive directors, they sometimes lack banking experience”

"Lack of true independence"

"Lack of knowledge of all aspect of governance - i.e. governance of profit as well as governance of risk and corporate health"

"Lack of understanding of their duties and responsibilities as a director"

"Directors largely drawn from the chartered accountant community. In SA if you have a CA you are likely to be used in many capacities outside your chosen profession. Little acknowledgement of other professions"

"More and more pressure is put on boards to reflect diversity. Due to country's history pressure is placed on HDI directors to serve on many boards thus not giving each its full attention"

"Experience equips NED's to identify and understand issues for challenge and debate"

"There have been many previously disadvantaged individuals appointed to the boards of banks and unfortunately they have not all had the benefit of good technical training"

"It is my perception that due to the lack of experienced NED's banks have to make use of less experienced but well connected directors"

"Quite a new board with recent appointments of the majority of the non-executives which do not have backgrounds in banking. However, the majority of non-executives which are on the board prior to these non-executive appointments do have experience"

"We have spent time talking to the NED about corporate governance. As opposed to them encouraging the discussion and finding a common agreement it became an exercise of dismissing the findings and arguing their case"

Table 5.8: Experience/background

Question 5: What 3 types of experience or background do you think a non-executive needs to be effective on a banking board?

		Gender		Age Group			Race Group	
	Total	**Male**	**Female**	**Under 40yrs**	**41-50yrs**	**51yrs+**	**White**	**B/C/I**
	27	20 74.1	7 25.9	5 18.5	15 55.6	7 25.9	21 77.8	6 22.2
Corporate experience	21 77.8	15 75.0	6 85.7	4 80.0	11 73.3	6 85.7	15 71.4	6 100.0
Banking experience	16 59.3	11 55.0	5 71.4	4 80.0	8 53.3	4 57.1	14 66.7	2 33.3
General Management	11 40.7	8 40.0	3 42.9	2 40.0	7 46.7	2 28.6	7 33.3	4 66.7
Track record of board experience	11 40.7	8 40.0	3 42.9	3 60.0	5 33.3	3 42.9	11 52.4	- -
International / Global experience	10 37.0	8 40.0	2 28.6	2 40.0	3 20.0	5 71.4	8 38.1	2 33.3
Have seen at least 1 credit cycle	7 25.9	7 35.0	- -	- -	6 40.0	1 14.3	5 23.8	2 33.3
Entrepreneur - have started or run own business	3 11.1	2 10.0	1 14.3	- -	3 20.0	- -	2 9.5	1 16.7
Other	1 3.7	- -	1 14.3	- -	1 6.7	- -	- -	1 16.7

Table 5.9: Character attributes

Question 6. Please select the 3 most important <u>character attributes</u> you think a non-executive director needs to be effective on a banking board?

		Gender		Age Group			Race Group	
	Total	**Male**	**Female**	**Under 40yrs**	**41-50yrs**	**51yrs+**	**White**	**B/C/I**
	26	19 73.1	7 26.9	5 19.2	15 57.7	6 23.1	20 76.9	6 23.1
Judgement	14 53.8	11 57.9	3 42.9	4 80.0	6 40.0	4 66.7	11 55.0	3 50.0
Independence of mind	13 50.0	9 47.4	4 57.1	2 40.0	9 60.0	2 33.3	10 50.0	3 50.0
Integrity	12 46.2	6 31.6	6 85.7	4 80.0	6 40.0	2 33.3	7 35.0	5 83.3
Wisdom	9 34.6	7 36.8	2 28.6	1 20.0	6 40.0	2 33.3	8 40.0	1 16.7
Independence	6 23.1	6 31.6	- -	2 40.0	1 6.7	3 50.0	6 30.0	- -
Objectivity	5 19.2	4 21.1	1 14.3	- -	3 20.0	2 33.3	3 15.0	2 33.3
Helicopter / Big picture thinker	5 19.2	1 5.3	4 57.1	1 20.0	3 20.0	1 16.7	2 10.0	3 50.0
Ability to assert one self	5 19.2	5 26.3	- -	1 20.0	4 26.7	- -	4 20.0	1 16.7
Strong personality	2 7.7	2 10.5	- -	- -	2 13.3	- -	2 10.0	- -
Trustworthy	2 7.7	2 10.5	- -	- -	1 6.7	1 16.7	2 10.0	- -
Courage	2 7.7	2 10.5	- -	- -	1 6.7	1 16.7	2 10.0	- -
Unconcerned with being popular or liked	1 3.8	- -	1 14.3	- -	1 6.7	- -	1 5.0	- -
Commands respect	1 3.8	1 5.3	- -	- -	1 6.7	- -	1 5.0	- -
Entrepreneurial nature	1 3.8	1 5.3	- -	- -	1 6.7	- -	1 5.0	- -
No Response	1	1	-	-	-	1	1	-

Table 5.10: Technical skills

Question 8. What do you think are the 3 most important <u>technical skills</u> a non-executive director of a bank would need?

		Gender		Age Group			Race Group	
	Total	**Male**	**Female**	**Under 40yrs**	**41-50yrs**	**51yrs+**	**White**	**B/C/I**
	27	20 74.1	7 25.9	5 18.5	15 55.6	7 25.9	21 77.8	6 22.2

Risk management	17 63.0	15 75.0	2 28.6	3 60.0	9 60.0	5 71.4	14 66.7	3 50.0
Strategic thinking skills	17 63.0	12 60.0	5 71.4	4 80.0	10 66.7	3 42.9	13 61.9	4 66.7
Ability to challenge and probe information presented	15 55.6	10 50.0	5 71.4	3 60.0	8 53.3	4 57.1	12 57.1	3 50.0
Ability to reason	8 29.6	5 25.0	3 42.9	2 40.0	5 33.3	1 14.3	6 28.6	2 33.3
Business skills	7 25.9	6 30.0	1 14.3	2 40.0	2 13.3	3 42.9	6 28.6	1 16.7
Financial skills	6 22.2	4 20.0	2 28.6	1 20.0	4 26.7	1 14.3	5 23.8	1 16.7
Asset and liability management skills	4 14.8	4 20.0	- -	- -	2 13.3	2 28.6	3 14.3	1 16.7
Fiduciary and legal skills	3 11.1	2 10.0	1 14.3	- -	2 13.3	1 14.3	2 9.5	1 16.7
Leadership skills	1 3.7	1 5.0	- -	- -	1 6.7	- -	1 4.8	- -
Regulatory skills	1 3.7	1 5.0	- -	- -	1 6.7	- -	1 4.8	- -
Technical or scientific skills	1 3.7	- -	1 14.3	- -	1 6.7	- -	- -	1 16.7
Strong interpersonal skills	1 3.7	- -	1 14.3	- -	- -	1 14.3	- -	1 16.7

Table 5.11: Knowledge

Question 9.1 What 3 types of knowledge do you see as being extremely important?								
		Gender		**Age Group**			**Race Group**	
	Total	**Male**	**Female**	**Under 40yrs**	**41-50yrs**	**51yrs+**	**White**	**B/C/I**
	26	19 73.1	7 26.9	5 19.2	14 53.8	7 26.9	20 76.9	6 23.1
Risk management knowledge	15 57.7	12 63.2	3 42.9	4 80.0	7 50.0	4 57.1	12 60.0	3 50.0
Business knowledge	14 53.8	10 52.6	4 57.1	2 40.0	6 42.9	6 85.7	11 55.0	3 50.0
Banking and financial industry knowledge	13 50.0	9 47.4	4 57.1	2 40.0	9 64.3	2 28.6	11 55.0	2 33.3
International business trends and best practice	12 46.2	7 36.8	5 71.4	3 60.0	5 35.7	4 57.1	9 45.0	3 50.0
Financial knowledge	10 38.5	9 47.4	1 14.3	1 20.0	7 50.0	2 28.6	8 40.0	2 33.3
Macro-environmental knowledge	4 15.4	1 5.3	3 42.9	- -	3 21.4	1 14.3	2 10.0	2 33.3
Awareness and of political, environmental and social issues	4 15.4	4 21.1	- -	1 20.0	3 21.4	- -	3 15.0	1 16.7

Asset and liability management knowledge	7.7	10.5	-	-	1 7.1	1 14.3	1 5.0	1 16.7
Academic knowledge	1 3.8	1 5.3	- -	- -	1 7.1	- -	1 5.0	- -
Technical knowledge	1 3.8	- -	1 14.3	1 20.0	- -	- -	- -	1 16.7
Economic knowledge	1 3.8	1 5.3	- -	1 20.0	- -	- -	1 5.0	- -
Compliance issues	1 3.8	1 5.3	- -	- -	- -	1 14.3	1 5.0	- -
No Response	1	1	-	-	1	-	1	-
Asset and liability management knowledge	2 7.7	2 10.5	- -	- -	1 7.1	1 14.3	1 5.0	1 16.7
Academic knowledge	1 3.8	1 5.3	- -	- -	1 7.1	- -	1 5.0	- -
Technical knowledge	1 3.8	- -	1 14.3	1 20.0	- -	- -	- -	1 16.7
Economic knowledge	1 3.8	1 5.3	- -	1 20.0	- -	- -	1 5.0	- -
Compliance issues	1 3.8	1 5.3	- -	- -	- -	1 14.3	1 5.0	- -
No Response	1	1	-	-	1	-	1	-

5.2.3 Research question 3: What are the expectations of stakeholders including regulators, investors and industry bodies of the skills, knowledge, experience and competence of non-executive directors of banks?

Table 5.12: Primary role of a non-executive director

Question 1. Besides being a legal and fiduciary requirement, what do you see as the primary role of a non-executive director?

		Gender		Age Group			Race Group	
	Total	**Male**	**Female**	**Under 40yrs**	**41-50yrs**	**51yrs+**	**White**	**B/C/I**
	27	20 74.1	7 25.9	5 18.5	15 55.6	7 25.9	21 77.8	6 22.2
Independent voice	12 44.4	8 40.0	4 57.1	3 60.0	4 26.7	5 71.4	8 38.1	4 66.7
Check and balance on executive	11 40.7	9 45.0	2 28.6	1 20.0	8 53.3	2 28.6	10 47.6	1 16.7
Identifying and finding business opportunities	2 7.4	2 10.0	- -	1 20.0	1 6.7	- -	2 9.5	- -
Experience	2 7.4	1 5.0	1 14.3	- -	2 13.3	- -	1 4.8	1 16.7

Table 5.13: Performance of non-executive directors

Question 3. Thinking of last year, what do you think of the overall performance of non-executive directors of banks?		Gender		Age Group			Race Group	
	Total	Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	26	19 73.1	7 26.9	5 19.2	15 57.7	6 23.1	20 76.9	6 23.1
1 = Excellent	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
2 = Very good	4 15.4	2 10.5	2 28.6	2 40.0	1 6.7	1 16.7	3 15.0	1 16.7
3 = Good	14 53.8	10 52.6	4 57.1	1 20.0	9 60.0	4 66.7	10 50.0	4 66.7
4 = Average	7 26.9	6 31.6	1 14.3	2 40.0	4 26.7	1 16.7	6 30.0	1 16.7
5 = Poor	1 3.8	1 5.3	0 0.0	0 0.0	1 6.7	0 0.0	1 5.0	0 0.0
6 = Very Poor	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
No Response	1	1	0	0	0	1	1	0
Mean	3.19 63.5%	3.32	2.86	3.00	3.33	3.00	3.25	3.00

Table 5.14: Reasons for performance rating

3.1 Why do you think this is so

"This was a year where balance sheet growth by the banking sector was too high and I have no doubt that there will be some tears at the end of this cycle. Also the FSC is failing and I don't see the banks being serious about this"

"Inexperience, Long in the tooth (tenure); Low skill levels; Low executive disposition, No strength of character and conviction"

"Banks have had to deal with changes to business models and ethics regarding their treatment of clients. As well as a myriad of new legislation. Banks have progressed but still have some way to go"

"Based on information in the public domain, it appears effective. However, their knowledge of banking must be questioned when viewed in light of regulatory criticism leveled against the banking industry e.g. Nedbank saga; Bank charges investigation, Investec loan to Brett Kebble"

"The financial markets have performed well. NED did not harm to be too critical. Why don't they have a voice in good times a well as bad times? "

"Some non-execs participate effectively by asking the right questions in meetings. However some non-execs do not participate at all through fear of asking stupid questions"

"Legislation has brought greater awareness. Regular scrutiny by the banking sector. Increasing emphasis on training. Competitive environment. Legislation has increased the need to understand the risks and controls"

"Surveys show that there was a poor attendance from non-execs. This added to low experience levels of non-execs and poor induction to roles infers that boards have had questionable contributions to the good performance of banks"

"Well prepared meetings. Asking probing questions"

"Generally the larger banks in SA have well qualified, experienced NEDs who are able to bring independent thinking and practical solutions to issues raised"

"The non-execs generally go with the flow - there is a reluctance to confront management and test them the same way that, say, investors do. I also think that they generally do not get close enough to the business to be really effective"

"They bring outside experience on matters under discussion"

"Lack of true independence ,and strongly biased to shareholder interests"

"Regulation forced them to get their act together and forced to behave in a manner befitting this regulated industry"

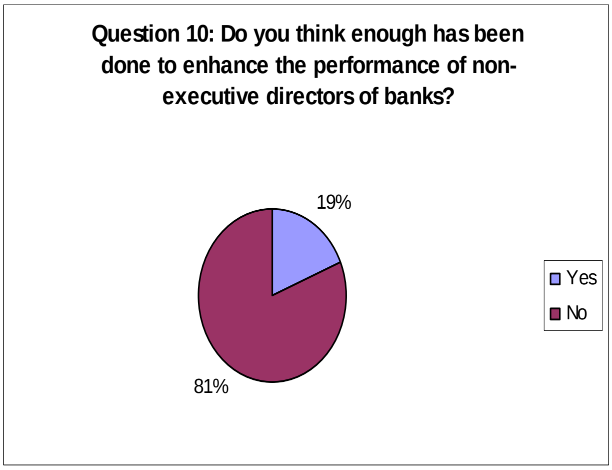
"The non-execs generally go with the flow - there is a reluctance to confront management and test them the same way that, say, investors do. I also think that they generally do not get close enough to the business to be really effective"

"They bring outside experience on matters under discussion"

"Lack of true independence ,and strongly biased to shareholder interests"

"Regulation forced them to get their act together and forced to behave in a manner befitting this regulated industry"

FIGURE 5.2 : VIEW OF ALLOCATION OF RESOURCES TO ENHANCE PERFORMANCE



5.2.4 Research question 4: What are the identified training gaps?

Table 5.15: Weakest character attributes

Question 7. What do you think are the 3 weakest character attributes among non-executive directors of banks?		Gender		Age Group			Race Group	
	Total	**Male**	**Female**	**Under 40yrs**	**41-50yrs**	**51yrs+**	**White**	**B/C/I**
	27	20 74.1	7 25.9	5 18.5	15 55.6	7 25.9	21 77.8	6 22.2
Wisdom	8 29.6	8 40.0	- -	2 40.0	3 20.0	3 42.9	7 33.3	1 16.7
Independence of mind	8 29.6	7 35.0	1 14.3	- -	5 33.3	3 42.9	7 33.3	1 16.7
Desire to learn	8 29.6	6 30.0	2 28.6	2 40.0	6 40.0	- -	6 28.6	2 33.3
Helicopter / Big picture thinker	7 25.9	4 20.0	3 42.9	1 20.0	3 20.0	3 42.9	5 23.8	2 33.3
Courage	6 22.2	4 20.0	2 28.6	2 40.0	2 13.3	2 28.6	6 28.6	- -
Independence	6 22.2	4 20.0	2 28.6	2 40.0	2 13.3	2 28.6	4 19.0	2 33.3
Motivation to perform	6 22.2	4 20.0	2 28.6	1 20.0	4 26.7	1 14.3	5 23.8	1 16.7
Strong personality	5 18.5	3 15.0	2 28.6	- -	4 26.7	1 14.3	2 9.5	3 50.0
Stress resistance	5 18.5	2 10.0	3 42.9	1 20.0	4 26.7	- -	2 9.5	3 50.0
Judgement	4 14.8	3 15.0	1 14.3	1 20.0	1 6.7	2 28.6	4 19.0	- -
Objectivity	3 11.1	2 10.0	1 14.3	1 20.0	1 6.7	1 14.3	2 9.5	1 16.7
Unconcerned with being popular or liked	2 7.4	2 10.0	- -	- -	2 13.3	- -	1 4.8	1 16.7
Integrity	2 7.4	2 10.0	- -	1 20.0	- -	1 14.3	2 9.5	- -
Commands respect	1 3.7	1 5.0	- -	- -	1 6.7	- -	1 4.8	- -
Entrepreneurial nature	1 3.7	1 5.0	- -	- -	- -	1 14.3	1 4.8	- -
Delivers on promises	1 3.7	1 5.0	- -	- -	1 6.7	- -	1 4.8	- -
Ability to assert one self	7 25.9	6 30.0	1 14.3	1 20.0	5 33.3	1 14.3	7 33.3	- -

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Table 5.16: Weakest areas of skill

Question 8.1 Select the 3 weakest areas of skill among current non-executive directors of banks:

		Gender		Age Group			Race Group	
	Total	Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	27	20	7	5	15	7	21	6
		74.1	25.9	18.5	55.6	25.9	77.8	22.2
Risk management	13	10	3	2	7	4	12	1
	48.1	50.0	42.9	40.0	46.7	57.1	57.1	16.7
Ability to challenge and probe information presented	11	9	2	1	6	4	8	3
	40.7	45.0	28.6	20.0	40.0	57.1	38.1	50.0
Strategic thinking skills	9	7	2	1	6	2	6	3
	33.3	35.0	28.6	20.0	40.0	28.6	28.6	50.0
Financial skills	8	7	1	2	4	2	8	-
	29.6	35.0	14.3	40.0	26.7	28.6	38.1	-
Regulatory skills	7	3	4	3	3	1	6	1
	25.9	15.0	57.1	60.0	20.0	14.3	28.6	16.7
Technical or scientific skills	7	4	3	2	4	1	4	3
	25.9	20.0	42.9	40.0	26.7	14.3	19.0	50.0
Fiduciary and legal skills	5	3	2	-	4	1	4	1
	18.5	15.0	28.6	-	26.7	14.3	19.0	16.7
Asset and liability management skills	4	3	1	1	3	-	3	1
	14.8	15.0	14.3	20.0	20.0	-	14.3	16.7
Business skills	4	4	-	-	2	2	4	-
	14.8	20.0	-	-	13.3	28.6	19.0	-
Ability to reason	3	3	-	2	1	-	3	-
	11.1	15.0	-	40.0	6.7	-	14.3	-
People skills	3	2	1	-	2	1	1	2
	11.1	10.0	14.3	-	13.3	14.3	4.8	33.3
Management skills	2	2	-	-	1	1	1	1
	7.4	10.0	-	-	6.7	14.3	4.8	16.7
Strong interpersonal skills	2	2	-	-	2	-	2	-
	7.4	10.0	-	-	13.3	-	9.5	-
Leadership skills	1	1	-	1	-	-	1	-
	3.7	5.0	-	20.0	-	-	4.8	-

Table 5.17: Weakest areas of knowledge

Question 9.2 What are the 3 weakest knowledge areas among current non-executive directors?

		Gender		Age Group			Race Group	
	Total	Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	27	20	7	5	15	7	21	6
		74.1	25.9	18.5	55.6	25.9	77.8	22.2
Risk management knowledge	12	10	2	2	8	2	12	-
	44.4	50.0	28.6	40.0	53.3	28.6	57.1	-
Banking and financial industry knowledge	12	11	1	-	7	5	10	2
	44.4	55.0	14.3	-	46.7	71.4	47.6	33.3
Technical knowledge	10	4	6	3	6	1	7	3
	37.0	20.0	85.7	60.0	40.0	14.3	33.3	50.0

International business trends and best practice	10 37.0	8 40.0	2 28.6	1 20.0	6 40.0	3 42.9	7 33.3	3 50.0
Compliance issues	8 29.6	6 30.0	2 28.6	3 60.0	3 20.0	2 28.6	6 28.6	2 33.3
Legal knowledge	7 25.9	3 15.0	4 57.1	3 60.0	3 20.0	1 14.3	6 28.6	1 16.7
Macro-environmental knowledge	4 14.8	3 15.0	1 14.3	1 20.0	1 6.7	2 28.6	3 14.3	1 16.7
Business knowledge	4 14.8	3 15.0	1 14.3	1 20.0	2 13.3	1 14.3	3 14.3	1 16.7
Asset and liability management knowledge	4 14.8	3 15.0	1 14.3	1 20.0	3 20.0	- -	3 14.3	1 16.7
Financial knowledge	3 11.1	3 15.0	- -	- -	2 13.3	1 14.3	3 14.3	- -
Awareness and of political, environmental and social issues	3 11.1	3 15.0	- -	- -	2 13.3	1 14.3	2 9.5	1 16.7
Academic knowledge	1 3.7	1 5.0	- -	- -	- -	1 14.3	1 4.8	- -
Politics of the country knowledge	1 3.7	1 5.0	- -	- -	1 6.7	- -	- -	1 16.7

5.2.5 Research question 5: What should the core content of a training programme be?

Table 5.18: Core content of a training course

Question 11.5 What do you think should form the core content of a training course? Please list important subjects or issues you think should be covered in the table below.		
Not indicated	**Once –off**	**On-going**
Legislation and competition.	General Training	Technical/Industry Update
Strategic issues	Firm Induction	Banks Act; JSE; FSC; Macro-Societal Issues
Governance. Regulatory and environment. IT. Global trends.	Business Skills	Requirements of directors; Best practice business trends; Strategic orientation; Personal development areas
	Induction to company	Risk
Business processes. Risk management issues. Financial. Governance. Regulatory.	Fiduciary / Legal responsibilities; Relevant regulatory matters; Financial training	Relevant regulatory matters
		Banking markets; Regulatory matters
	Risk; General banking	Director's responsibilities with regards to the Banks Act. Various risks facing banks. Changes to legislation that could impact on banks. International developments that could impact on banks
Risk management. Aspects of governance. Aspects of legislative impacts.	Director's fiduciary responsibilities with regards to the Companies Act	Bank financing and risk assessment. Strategic planning and evaluation. Performance indicators and managers' reports. Stakeholder issues and challenges

Governance. Ethics. King 11. Companies Act. Financials. Auditing. Industry specific acts and CPD Compliance and regulatory issues. Trends in the banking industry. Financial skills. Corporate governance. Risk. Banking product offering related topics such as treasury related, retail related etc. IT	Local laws and regulations; International standards and conventions; Role of committees and special requirements Risk Management Banking Industry. Organisational structure. Meetings / presentations by management on their divisions. Board functioning Risk management and assessment Expectation of good D's. Legal requirements. Statutory duties, obligations, powers and liabilities. Role and function of the board. Effective governance. Director's fiduciary duties. Specific responsibilities of directors of banks.	Director's duties. Good corporate governance practises. Regulatory training. IFRS update Statutory requirements, governance structure, codes, policies etc. Financial training. Risk management training International best practise. Global market trends and business needs. Governance and compliance. Specific banking technical subjects. Succession and talent retention. Business risk and opportunity overview. Technical update on core areas and opportunities. International best practises. Corporate Governance. Directors Duties. Ethics Understanding all risks faced by a bank. Understanding the regulatory framework. Understanding how banks work. Understanding the payment mechanisms. The business of banking. Banking Risks. Regulatory Compliance. Strategic planning Banking Information. International Trends. Independence training. Director's fiduciary roles. Risk and macro-environmental impact

5.2.6 Question 6: What do non-executive directors of banks believe is the best methodology to deliver such training?

Table 5.19: Best methodology

Question 11.6 What would the best methodology be to deliver a training programme for non-executive directors?								
		Gender		**Age Group**			**Race Group**	
	Total	**Male**	**Female**	**Under 40yrs**	**41-50yrs**	**51yrs+**	**White**	**B/C/I**
	26	19 73.1	7 26.9	5 19.2	14 53.8	7 26.9	21 80.8	5 19.2
Interactive	9 34.6	6 31.6	3 42.9	1 20.0	7 50.0	1 14.3	8 38.1	1 20.0
Formal course	5 19.2	5 26.3	- -	- -	5 35.7	- -	4 19.0	1 20.0
Seminars	4 15.4	4 21.1	- -	1 20.0	1 7.1	2 28.6	4 19.0	- -
Continuous professional development	3 11.5	1 5.3	2 28.6	- -	1 7.1	2 28.6	1 4.8	2 40.0

Presentation	2 7.7	- -	2 28.6	2 40.0	- -	- -	1 4.8	1 20.0
Forums	2 7.7	2 10.5	- -	1 20.0	- -	1 14.3	2 9.5	- -
By a standards body (IOB,IOD)	1 3.8	1 5.3	- -	- -	- -	1 14.3	1 4.8	- -
No Response	1	1	-	-	1	-	-	1

Table 5.20: Most effective form of training

Question 11.2 Please rank in order of preference (where 1 = most effective, and 5 = least effective) what you deem to be the most effective form of training?

	Total	**Most effective (1)**	**(2)**	**(3)**	**(4)**	**Least effective (5)**	**No response**	**Mean**
Induction training - firm specific	27 100.0	9 33.3	5 18.5	7 25.9	5 18.5	1 3.7	0	2.41
Coaching / Mentoring by an experienced non executive director / director	26 100.0	6 23.1	9 34.6	6 23.1	1 3.8	4 15.4	1	2.54
Customised NED training and evaluation programmes for a specific company by business schools, consultancy	26 100.0	4 15.4	7 26.9	5 19.2	7 26.9	3 11.5	1	2.92
Introductory seminar / course for individuals interested in becoming NED	27 100.0	4 14.8	2 7.4	3 11.1	3 11.1	15 55.6	0	3.85
General training on board effectiveness and specific training areas - business schools, consultancy, in-house	27 100.0	4 14.8	5 18.5	6 22.2	9 33.3	3 11.1	0	3.07

FIGURE 5.3: ONGOING VS ONCE-OFF

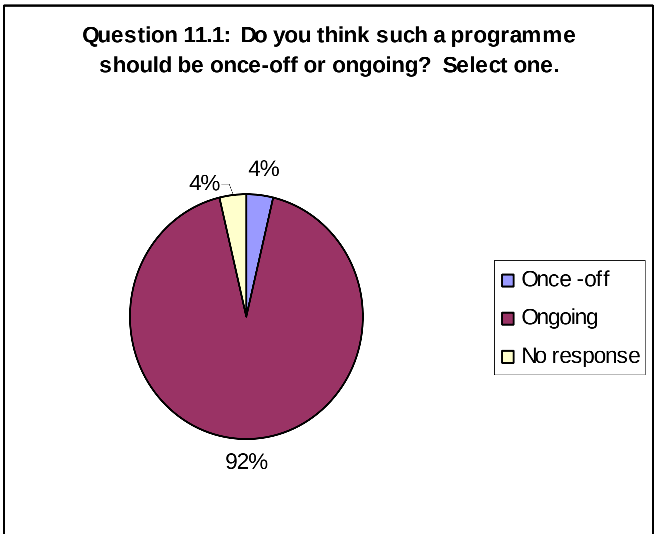


FIGURE 5.4: FREQUENCY

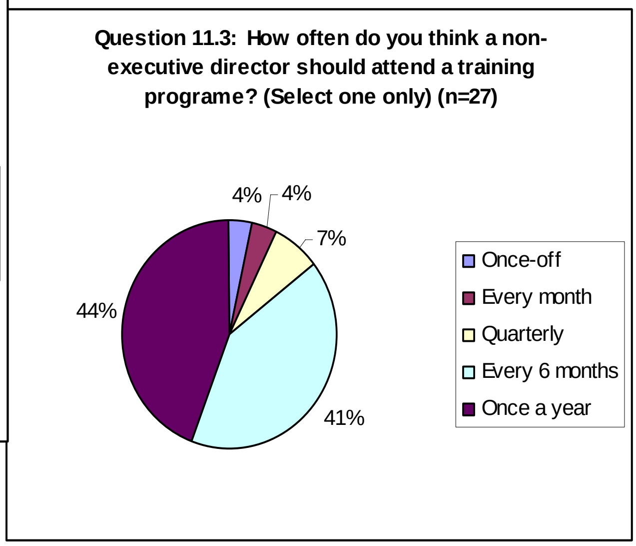


Table 5.21: Reasons for choice of methodology

Question 11.3.1 Reasons or comments on your response to Q 11.3?

Once-off

“Once-off tailored induction training for a new director combined with quarterly ongoing training to all directors”

Every month

“Training needs to be continuous”

Quarterly

“The frequency of such training will ensure that updates on the regulatory and economic environment can be tailored to rotate training in specialist areas”

“Programmes should cover new developments such as FAIS; FICA; BASEL II; and IFRS”

Every 6 months

“If the Non-execs need more training they should not be on a bank board”

“Non-execs need to keep track of the happenings in the company and the latest developments that will assist in decision making and adding value”

“It depends on the knowledge of the non-exec. More frequently for directors and update of firm specific risks later”

“It is appropriate that the NEDs' knowledge, awareness and skills be refreshed continuously. The NED should also maintain the independence and strike balances on the board”

“Depends on the length of the training provided - 2 days per year should be enough. This should include technical and skills training”

“A continuous education programme is only effective if done on a fairly regular basis and updated basis”

“Depending on the time allocated to the training session, twice a year should be enough”

“Information and market changes - need to be up to date with the trends”

Once a year

“Other than the upfront general training set out in 11.2 above, the more practical the better - courses will not help”

“If it is truly effective, once a year will suffice. Too frequently will create too much of a call on the directors time”

“The non-executive should also take personal responsibility for own education and development. The annual training should be a high level update with the initial training being extensive”

“The chairman and CEO should be mentoring and guiding board members. A director needs space to develop their own judgement and knowledge and should use the annual training as a supplement. The board should use evaluations to monitor performance”

“Training should be a mix of business specific issues - operations, financial, strategy etc and governance / regulatory issues”

“Annual refresher course and update of experiences of knowledge gained”

“Keep the knowledge recent”

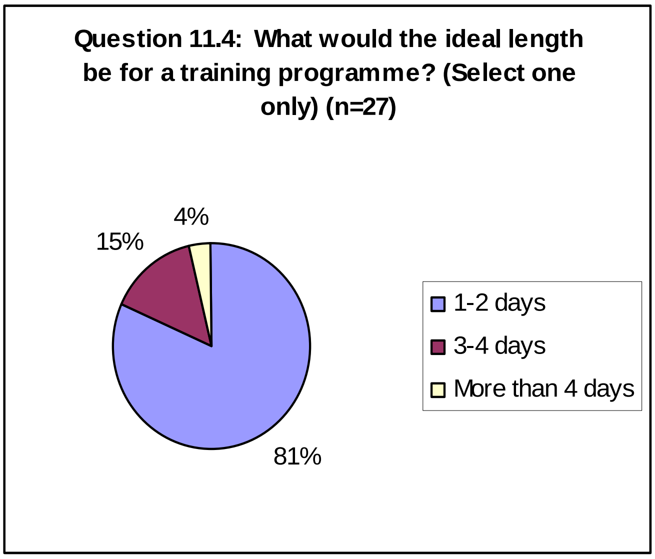
"A two day seminar once a year"

"Annual training should be sufficient if a proper induction programme has been instituted"

"An annual session should suffice for this purpose. Directors tend to be involved in the day to day issues and need regular reminders and updates on important aspects of their role"

"A focused training programme over a week period, held once a year will in my view better results than one or two days a year"

FIGURE 5.5: IDEAL LENGTH



5.2.7 Question 7: How should the impact of such training be measured?

FIGURE 5.6: MEASURING IMPACT

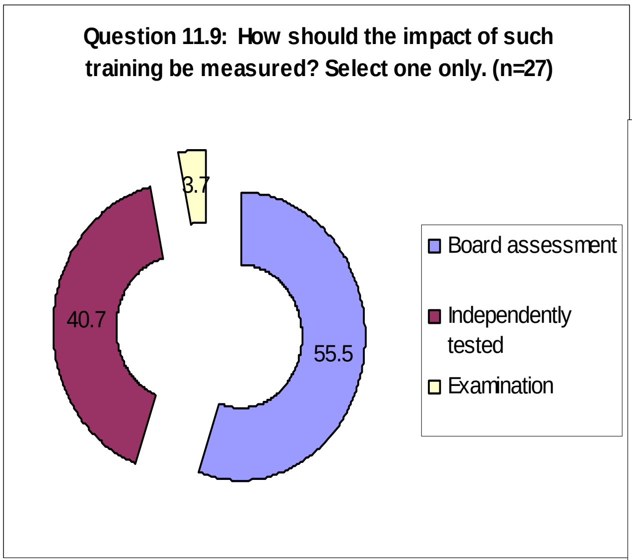


FIGURE 5.7: CPE

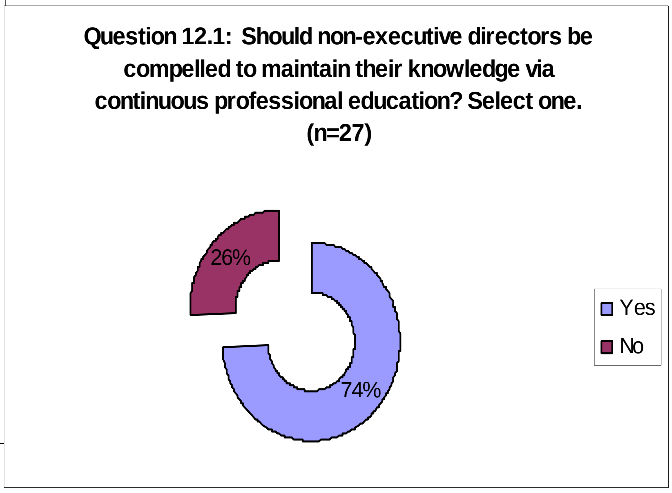


FIGURE 5.8: CERTIFICATE OF COMPETENCY

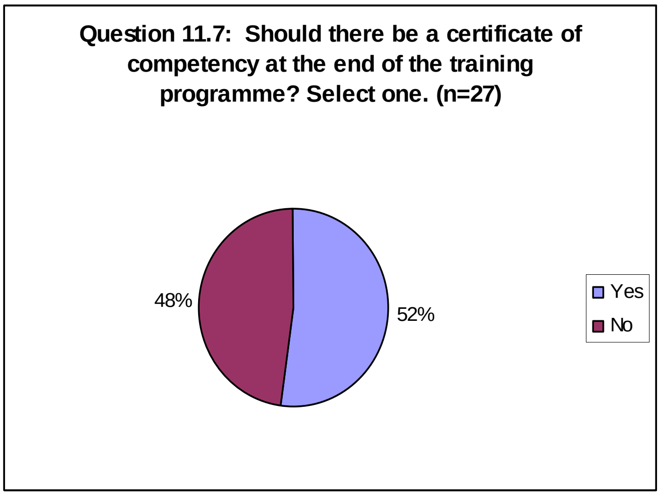
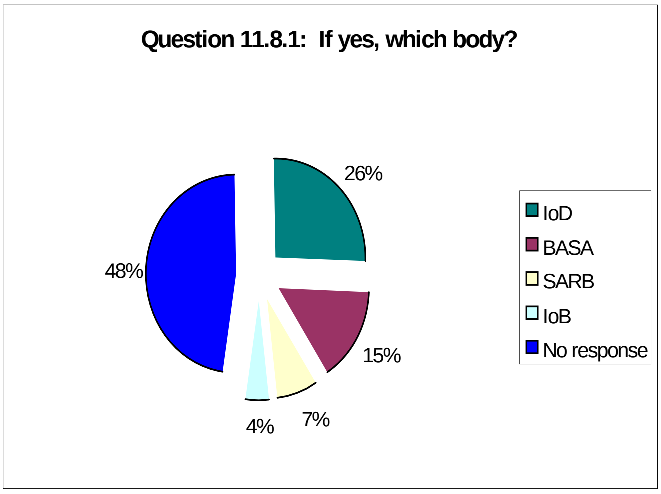


FIGURE 5.9: DRIVEN BY WHICH INDUSTRY BODY?



CHAPTER 6: DISCUSSION OF THE RESULTS

This chapter details, according to the research questions in Chapter 3, the analysis of the quantitative and qualitative research findings in Chapter 5 in the context of the literature contained in Chapter 2.

The independent observer identified a 98% agreement on the assessment of the qualitative results.

6.1 Research question 1

What training programmes are currently available to non-executive directors of banks?

This question was intended to elicit responses to indicate what was the current status quo of training for non-executive directors of banks. The qualitative research (Table 5.1) showed that there were no industry initiatives or standards and that the current formal programmes offered by business schools are not company/bank specific. In addition, where the banks themselves do training, the focus is on the operations of the bank. These findings supported the report of BSD (2005) and the comments by the Registrar of Banks in the 2004 and 2005 BSD Annual Reports.

Some effective specific training programmes cited by respondents in Table 5.2 included those offered by Wits Business School, Institute of Directors, Deloitte & Touche and a course developed by John Louw Mcknight. However the majority of respondents were unaware of any effective specific programmes, which highlighted the issue of a lack of effective specific training programmes for non-executive directors of banks and is supportive of the findings of BSD (2005) that not enough resources are allocated to the training of non-executive directors.

Figure 5.1 indicates that only 7 out of 27 respondents had attended an induction programme on appointment and 4 out of 7 found it to be highly beneficial (Table 5.3). Figure 5.1 indicates that of the 7 respondents who responded that they had not attended an induction programme, an overwhelming 71% would have found it highly beneficial. King (2002) strongly recommends that newly appointed directors attend an orientation and induction programme to familiarise them with the business. However, as is evidenced from the results, this recommendation has not been effectively implemented within banks.

Only 1 respondent had attended any of the 5 stated open courses set out in Table 5.3, while 3 respondents had attended some other course. 23 respondents had not attended any course open to non-executive directors. This supports the statement in Garratt (2003, p68) where he quotes an IoD, London survey of members that showed that in 1992 less than 8% had even one day's training in being a director. In 2001, the percentage had only moved to 15%. According to Tyson (2003), this can be attributed to the gap between what training providers are offering and what companies need. However, Harris (2002) indicates a growing attendance at corporate governance conferences because business schools are not catering for this need.

In conclusion, the findings support the literature that there are neither company/bank specific training nor effective open programmes available for non-executive directors of banks.

6.2 Research question 2

What skills, knowledge, experience and competence should the ideal non-executive director of a bank possess?

In order to investigate the research problem, it was necessary to understand the competency profile, as defined by SAQA (2000), of the ideal non-executive director of a bank.

It is important for non-executive directors of banks to have a background or knowledge of banking and banking related matters (Table 5.1). In addition, independence, courage, financial skills and knowledge of risk management were also sited as ideal competencies.

In support of the literature, and in particular Garratt (2003), who says that experience alone is insufficient, 53% of respondents stated that the most important attribute that an effective non-executive director needs, is expertise (knowledge and skills), with 34.6% stating it was experience according to Table 5.5; while 50% of respondents stated that the area of biggest weakness for non-executive directors was technical knowledge and skills followed by 26.9% who cited experience (Table 5.6). Expertise was more highly rated by females and Black, Coloured and Indian respondents and is also the weakest area. Some of the reasons for the areas of weakness (Table 5.7) included a lack of experience, appropriate training and understanding of risks in the business of banking. One respondent said, “ Whilst I believe that experience is the most important attribute, knowledge and skills come a close second, and I generally find non-execs lacking in this area." Another respondent says, "Experience equips NEDs to identify and understand issues for challenge and debate".

Another reasons cited, that is specific in the South African context (FSC, 2003), is the appointment as directors of banks of historically disadvantaged individuals who may not have had the benefit of good technical training. Interestingly, the characteristics of good personal values and character were not regarded as an issue.

The most important 3 types of experience and background an effective non-executive director needs (Table 5.8) are corporate experience (77.8%), banking experience (59.3%) considered important by Basel (2005) and general management and a track record of board experience which both scored 40.7%. Corporate experience was highly rated in all age groups, female and Black, Coloured and Indian respondents. This is supportive of the literature that in order to monitor management, an effective non-executive director needs to understand the operating environment of a bank and be able to probe the information presented by management.

Table 5.9 indicates that the 3 most important character attributes are judgment (53.8%) in support of the recommendations of the Corporate Directors Handbook (2002), Higgs (2002) and Myburgh (2003), independence of mind (50%) as stated by Higgs (2002) and Tyson (2003), and integrity (46.2%) in support of Tyson (2003). Assertiveness was not rated as an important character attribute perhaps because it is accepted that to be a non-executive director implies a strong personality.

The 3 most important technical skills (Table 5.10), consistent across all demographics, were risk management (63%), strategic thinking skills (63%). Myburgh (2003) and BSD (2005) highlighted the crucial importance for directors of banks to be aware of their responsibilities in terms of risk management. 55.6% of respondents said that it was important that non-executive directors have the ability to challenge and probe information presented. The Corporate Directors Handbook (2004) also considers this an important skill, but as Naidoo (2002) notes, non-executive directors are not often chosen for this ability. Contrary to Higgs (2002) interpersonal skills and leadership skills were not highly rated.

Risk management knowledge was also rated as the most important type of knowledge a non-executive director of a bank needs (Table 5.11). This is completely in support of Higgs (2002), Myburgh (2003) and Tyson (2003). Business knowledge was rated as the second most important type of knowledge, which is supported by the writings of Wixley and Everingham (2001) where they state that because board effectiveness depends on the people involved, all directors need to have a good understanding of company business and non-executive directors need to be empowered to obtain this understanding. As was expected within the banking sector, knowledge of the banking and financial industry was rated as the third most important type of knowledge and is supported by the recommendations of Basel (2005), BSD (2005) and the competencies outlined in the NACD Blue Ribbon report (2005).

Knowledge of international trends and financial knowledge were rated fairly highly by 46.2% of respondents. Knowledge of international trends being important, because as Mboweni (2004) notes, we live in a global economy and South African banks are simultaneously entering foreign markets as foreign banks enter the South African market. There is support in some literature (Tyson, 2003 and NACD Blue Ribbon, 2004) for the importance of financial knowledge although Xiaolin (2005) states that whilst directors should have a minimum professional knowledge for managing the company, the knowledge does not need to be of financial nature.

Contrary to the findings of the qualitative research and King (1994), knowledge of the macro-environment was rated low by 15.4% of respondents.

In conclusion, it is obvious that the ideal, effective non-executive director of a bank should possess sound risk management technical knowledge and skills, have relevant board and banking experience and be able to bring judgment and independence of mind to bear in decision making.

6.3 Research question 3

What are the expectations of stakeholders including regulators, investors and industry bodies of the skills, knowledge, experience and competence of non-executive directors of banks?

The Registrar of Banks, Errol Kruger representing the regulator as one of the key stakeholders of a bank, has publicly stated his expectation of non-executive directors in the 2004 BSD Annual Report. However, it was necessary to gauge the expectations of other stakeholders and the respondent sample was designed to elicit such views.

The findings in Table 5.12 indicated that besides being a legal and fiduciary requirement, 44.4% of respondents, believe that the primary role of the non-executive director is to be an independent voice. Higgs (2002), Tyson (2003), Myburgh (2003) and the Corporate Directors Handbook (2004) all make reference to this important role of the non-executive director.

However, 3 out of 4 respondents in the qualitative research stated that the non-executive director should be a check and balance on the executive. As one respondent stated, “They are the defending line between the natural entrepreneurial instincts of management and the interests of others than shareholders”. This is well supported by the findings in Table 5.12 where 40.7% of respondents concurred. This aligns to the views of Higgs (2002) and Myburgh (2003) and is summed up by the view of Payne (2002), “To the extent that corporate governance is about the balance of power, the non-executive director is the fulcrum that ensures the balance.”

The findings in Table 5.12 are not supportive of the findings of the Ernst & young survey cited in Tyson (2003) where 79% of respondents valued experience. While this may not be an expectation of stakeholders, it is regarded as an important attribute of non-executive directors and one of the weakest areas (see Table 5.5 and Table 5.6).

In terms of the overall performance of non-executive directors of banks over the past year, there was a strong indication that it was good (Table 5.13) and some reasons cited in Table 5.14 can be summed up by the following quotes:

- “Regulation forced them to get their act together and forced them to behave in a manner befitting this regulated industry ”
- “This was a year where the balance sheet growth by the banking sector was too high and I have no doubt that there will be some tears at the end of this cycle. Also the FSC is failing and I don’t see the banks being serious about this”
- “Generally the larger banks in SA have well qualified, experienced NEDs who are able to bring independent thinking and practical solutions to issues raised”.

As Bollard (2003) states, “the stakes are high”. BSD (2005) found that banks reviewed were committed to adherence to high corporate governance standards. Mboweni (2004) also notes that the South African banking sector is regulated by the principles set by Basel Committee on Banking Supervision and therefore complies with international standards. In addition, in terms of the Banks Act (1990), the Registrar of Banks has to approve the appointment of any non-executive director.

According to Figure 5.2, an overwhelming 81% of respondents said that not enough had been done to enhance the performance of non-executive directors of banks.

In general there appears to be an acceptance that the perception of the good performance of the non-executive directors of banks is due to extraneous factors such as a buoyant market and enforced regulation, rather than a factor of the performance of the directors themselves, and that not enough has been done to enhance the performance of non-executive directors.

6.4 Research question 4

What are the identified training gaps?

The competency profile of an ideal, effective non-executive director of a bank was discussed in 6.2 above, and Research Question 4 sought to establish what the gaps where in terms of the ideal profile and the perceived status quo with a view to identifying the areas of training needed.

There were diverse views in terms of the 3 weakest character attributes among non-executive directors of bank. These included wisdom and independence of mind, although these were regarded as 2 of the 3 most important character traits in Table 5.15. A desire to learn was the third weakest character attribute identified, which is worrying in the context of the research problem and the general consensus in Figure 5.2 of the need for measures to enhance the performance of non-executive directors.

Other character attributes identified as weak included:

- Helicopter view/big picture thinker
- Courage
- Independence
- Motivation to perform

The issue remains as to whether these weaknesses in character attributes can be improved through training or do they have to be present at the time of appointment? The scope of this research did not allow for exploration of this issue although 1 respondent during the qualitative research who rated personality/character traits above expertise or experience said, “You need to get a sense of the person; the calibre of the person is important because the character of individual should be appropriate, as expected of a non-executive director, to be a check and balance on the executive”.

The 3 most important areas of skills identified in 6.2 above were also the 3 weakest areas of skill (Table 5.16) although there was strong support for financial skill, regulatory and technical skill as areas of weakness. There appears to be a perception, in all demographics, that non-executive directors of banks are stronger on leadership, interpersonal and business skill.

In terms of Table 5.17 risk management and knowledge of the banking and financial industry was identified by respondents as the top 2 weakest areas of knowledge. These were also identified in Table 5.11 as the 2 most important areas of knowledge for an ideal, effective non-executive director. Technical knowledge and knowledge of international business trends were also regarded as areas of weakness as were knowledge of compliance and legal issues. Non-executive directors appear to be strong on academic knowledge and knowledge of the politics of the country. Only 14.8% of respondents rated non-executive directors as weak on knowledge of the business, macro-environment and asset and liability management. It can be assumed that this is because most informal orientation and induction programmes focus on the operations of the bank and presentations on specific issues.

In conclusion, the main training gaps identified include those related to:

- Risk management.
- Banking and financial industry specific issues.
- Financial skill.
- Regulatory and compliance knowledge.
- Giving non-executive directors the tools to challenge and probe management information presented and develop independent thinking.
- Cultivating wisdom and a desire to learn.

6.5 Research question 5

What should the core content of a training programme be?

Following on from the conclusions in 6.4 above, respondents were asked to indicate, unprompted, what they believe the core content of a training programme for non-executive directors of banks on both a once-off and ongoing basis should be.

King (2002) recommends that any formal orientation programme should include an overview of the company's operations, its business and a directors fiduciary duties and responsibilities.

The findings in Table 5.18 on what should be included in a once-off training programme are supported by the findings of BSD (2005) on the content of informal induction programmes and include:

- An overview of the business operations.
- The fiduciary and statutory duties and responsibilities of a non-executive director of a bank (although in law there is no distinction between those of a non-executive and executive director).
- Key aspects of risk management.
- The expectations of non-executive directors of banks.

An ongoing programme should include:

- Regulatory issues – BSD (2005) indicates that some directors are unaware of regulatory matters and King (2002) recommends regular briefings to keep up to date with changes.
- Risk management as Myburgh (2003), indicates that one of the primary roles of the board, relates to the identification and management of risks.
- Directors duties – Tyson (2003) predicts that the responsibilities of non-executive directors will continue to expand.
- Technical, industry and bank specific updates.

Those detailed although not indicated as to whether they should be ongoing or once-off programmes include:

- Corporate governance updates
- Compliance and regulatory updates
- Update on business processes

The content of any training programme as identified by respondents, corresponds strongly to the identified training gaps in 6.4 above and the qualitative results in Table 5.1.

6.6 Research question 6

What is the best methodology to deliver such training?

Any training programme has to be designed for maximum effectiveness within an identified period. This question sought to determine how a training programme for non-executive directors of a bank should be structured in terms of methodology, structure and frequency.

The results of the quantitative research supported that of the qualitative research and the main findings were as follows:

A. Methodology

34.6% of the respondents (Table 5.19) indicated that an interactive methodology would be most effective, although there was support for formal courses and seminars. There appeared to be little support for continuous professional development (11.5%), although the literature indicates that this is important. Myburgh (2003) makes a specific reference to continuing education for non-executive directors and Reynolds (2002) cites the compulsory 30 hours of continuing education necessary to maintain the status of a Chartered Director in the UK.

B. Frequency

92% of respondents stated that any training programme should be ongoing. Myburgh (2003) and Tyson (2003) state that this is necessary to refresh and develop non-executive directors.

Figure 5.4 indicates that 44% of respondents were of the opinion that non-executives should annually attend a training programme while 41% indicated it should every 6 months. Reasons cited in Table 5.21 in support of the choices and against quarterly or monthly frequency were:

<u>In support of training every 6 months</u>

"If non-execs need more training they should not be on a bank board"

"A continuous education programme is only effective if done on a fairly regular basis"

"Depending on the time allocated to the training session, twice a year should be enough"

<u>In support of annual training</u>

"If it is truly effective, once a year will suffice. Too frequently will create too much of a call on the directors time"

"The non-executive director should also take personal responsibility for own education and development. The annual training should be a high level update with the initial training being extensive"

"A focused training programme over a week period, held once a year will in my view better results than one or two days a year"

C. Duration

According to Figure 5.5, the ideal length for a training programme should be 1-2 days and there is little support for any programme in excess of 4 days.

D. Form of training

Tyson (2003) sites 4 genres of training and respondents were asked to rank in order of effectiveness the most effective to the least effective (Table 5.20).
The most effective form of training was deemed to be induction (firm specific). This is supported by the recommendations of King (2002), Myburgh (2003) and BSD (2005) who all argue for a formal, company specific, induction and orientation programme. However, the results of a Deloitte & Touche survey as quoted in Tyson (2003), indicate that only 43% of respondents received training on appointment. The least effective form of training was deemed to be introductory seminars for potential non-executive directors. Harris (2002), however, indicates that there is a growing attendance at corporate governance seminars.

In conclusion, any training programme should ideally be:

- Interactive
- Held annually for 1-2 days
- Incorporate a bank specific induction programme
- Include an element of ongoing training

6.7 Research question 7

How should the impact of such training be measured?

It was important to understand what the most effective, accepted method for assessing the impact of any training programme would be.

Both the quantitative and qualitative research indicated widespread acceptance for a board assessment as the measurement tool (Table 5.1 and Figure 5.6).

However respondents were almost split equally in terms of whether there should be a certificate of competency driven by an industry body. The literature indicates that there is growing acceptance of the status of the Chartered Director which is implemented and monitored by the IoD in the UK, EU and will be launched in South Africa in 2007. The process to obtain this designation includes an examination as a certificate of competency as well as other competency assessments.

6.8 Demographics

The 27 respondents who completed the quantitative questionnaire and the 10 respondents who participated in the qualitative research were regarded as adequate to obtain a cross-section of views to address the research problem. There was a good spread in terms of gender, age and race.

However, caution should be exercised in generalising these findings to the entire population given the small sample size and the sampling techniques adopted.

6.9 Conclusion

In conclusion, the research findings validate the general literature on the training of directors and highlight specific issues as they relate to the banking sector and non-executive directors of banks.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 Summary of the research findings

The aim of this research study was to investigate the training of non-executive directors of banks in light of the comments by the Registrar of Banks, Errol Kruger.

The literature is very clear that banks play an important role in the economy and that the directors of banks, including non-executive directors, have a fiduciary responsibility towards the general public and depositors in particular. In order to fulfil these responsibilities it is necessary that these directors be individuals of a particular calibre and experience. In addition, they need to have particular knowledge of risk management issues, as that is inextricably linked to good corporate governance.

However, the research findings indicate that there is no "one-size-fits-all" solution to the research problem at present. This can be attributed to the following factors:

- Induction programmes at banks currently focus on the operational aspects of the bank. While this is regarded as important, the responsibilities of the directors of a bank as they relate to risk management cannot be over-emphasised. Induction programmes seem to follow a "tick-box", compliance approach thereby focusing on the form rather than the substance of the issues at hand.
- The effectiveness of non-executive directors is not dependent on their existing capabilities but on their willingness to refresh and extend their knowledge. However, there needs to be a commitment, from both the banks and from the

non-executive directors themselves to continuous professional education after appointment.

- The executive manage the bank on a day to day basis and if the role of the non-executive director is to be a check and balance on the executive then it is critical that the non-executive directors have an understanding of the business of the bank and issues peculiar to the banking sector, so as to be able to challenge and probe the information presented by management.
- There is no common understanding of what it means to be a non-executive director of a bank, given the special role that banks play in the economy. Therefore, there are divergent views from the respondents on what competencies an ideal non-executive director of a bank should possess.
- Some areas of weakness identified by the respondents relate to the character/personality traits of non-executive directors. The issue is then whether these traits should be present on appointment of the non-executive director or developed at a later stage.

Part of the problem appears to be the initial selection and nomination of non-executive directors of banks. Ideally a non-executive director should be appointed because the board believes, and the individual accepts, that they can make a contribution to the board based on their experience and knowledge.

7.2 Recommendations

Based on the literature review and the findings of the qualitative and quantitative research undertaken, it is recommended that:

- There should be a firm commitment, and allocation of adequate resources, to the training and development of non-executive directors of banks.

- The competency profile of the ideal non-executive director of a bank be developed and contain at least the following elements:

Table 7.1: Ideal competency profile

Experience/background	Have experience in at least one of the following: • Corporate experience • Banking/financial services • General management • Previous experience as a corporate director • International/global experience
Character	Be a person of: • Sound business judgement • Independence of mind • Integrity • Wisdom
Knowledge/Technical skills	Have expertise in at least one of the following: • Risk management • Banking/financial services • Strategy • Business • Finance • Macro-environmental factors • International business trends

- An “accredited” training programme should be developed and:

- ➢ Be focused on development of technical knowledge and skills especially relating to banking and risk management.
- ➢ Include an orientation/induction element to familiarise non-executive directors with the operations of the business and bank specific issues.
- ➢ Ideally, be an interactive training programme containing an element of ongoing training.

- The Registrar of Banks should endorse the content of any training programme.

- The impact of any training intervention should be measured via a board assessment designed to test individual director competency or be independently tested perhaps by an industry body such as the Institute of Bankers or the IoD. The results should be shared with the Registrar of Banks.

- Banks should include a statement in the corporate governance section of the annual report describing various training interventions for the year under review. These should also be reported annually to the Registrar of Banks.

- If necessary, the Registrar of Banks should, when considering the appointment of a non-executive director, make the appointment conditional upon the satisfactory completion by a non-executive director of the accredited programme. This must be done within a specified timeframe after appointment.

- When implemented, the Chartered Director status should become compulsory for all directors, including non-executive directors, of banks. All existing directors should be given the opportunity to achieve this status within a specified timeframe.

7.3 Recommendations for future research

As there has been no major research conducted in this area, any research that will enhance the process needs to be explored further. The following areas of potential research have been identified:

- A model based on the generally dynamic and iterative process of training could be developed and tested against a pilot group of non-executive directors to determine validity.

- A follow-up study with a larger sample to gain a deeper understanding of the research problem.

- An investigation into the feasibility and impact of implementing a continuous professional education programme for non-executive directors of banks.

7.4 Conclusion

To the best of the researcher's knowledge, no previous MBA research report has been submitted dealing specifically with the training of non-executive directors of banks. Thus, the participation of all directors of banks and other stakeholders was critical to the success of this research project.

This research has successfully investigated the training of non-executive directors of banks and it is hoped that it will contribute to the creation of a standardised, measurable training programme and encourage further efforts in the quest to improve the effectiveness of the non-executive directors of banks.

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APPENDICES

APPENDIX A: South African Registered Banks

Bank	Board of Directors		
	No. of executive directors	No. of non-executive directors	Total no. of directors
1. ABSA Bank Limited*	9	14	23
2. African Bank Limited#	8	11	19
3. Albaraka Bank Limited	Not covered by reviews		
4. Capitec Bank Limited#	2	7	9
5. FirstRand Bank Limited*	6	7	13
6. Habib Overseas Bank Limited#	2	5	7
7. HBZ Bank Limited#	2	6	8
8. Imperial Bank Limited#	6	7	13
9. Investec Bank Limited*	11	13	24
10. Marriott Corporate Property Bank Limited#	2	9	11
11. Mercantile Bank Limited#	2	4	6
12. Nedbank Limited*	9	16	25
13. Rennies Bank Limited#	2	6	8
14. Sasfin Bank Limited#	2	5	7
15. TEBA Bank Limited	Not covered by reviews		
16. The South African Bank of Athens Limited#	1	8	9
17. The Standard Bank of South Africa Limited*	3	11	14

Source: Bank Supervision Department Annual Report, 2005
* Directors of the bank (Myburgh, 2003, p. 34)
# Directors of the bank (BSD. 2005, p. 23)

APPENDIX B: Courses open to non-executive directors

Institution	Programme
GIBS	**Board Leadership Programme** The programme seeks to achieve changes in the behaviours of directors of boards such that they are able to positively influence the performance of a company through appropriate actions and decisions in their role as corporate governors. Duration: 12 contact days
GIMT	**Graduate Diploma in Company Direction** Diploma programme designed to develop existing and potential directors not only regarding their duties and responsibilities in relation to corporate governance, but in all aspects of company direction Duration: 14 contact days
RAU	**Certificate in Corporate Governance** Certificate programme developed to assist both listed and public companies come to terms with the King 2002 report. Duration: 5 contact days
UNISA	**Public Sector Governance Programme** Short course aimed to equip directors with the practical experience need to analyse and solve problems by placing public sector governance, strategy and the PFMA in context. Duration: 3 contact days
WITS	**Director Induction-JSE AltX** Director induction programme developed specifically for companies listed on the JSE AltX. Duration: 4 contact days

Source IoB 2006

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Appendix C: Interview Guide

Name:
Date:
Time:

Question 1: What is the content of current training programmes conducted by individual banks for non-executive directors?

Question 2: What skills, knowledge, experience and competence should the ideal non-executive director of a bank possess? What are the core skills that are needed for non-executive directors and which are most under developed or lacking?

Question 3: What are the expectations of regulators, investors and industry bodies of the skills, knowledge, experience and competence of non-executive directors of banks?

Question 4: Given the above, what are the identified training gaps and where should the development focus be?

Question 5: What do non-executive directors of banks believe their training needs are?

Question 6: What do non-executive directors of banks believe is the best methodology to deliver such training?

Question 7: How frequently is such training needed?

Question 8: Should there be any certificate of competency for non-executive directors?

Question 9: How should the impact of such training be measured?

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Appendix D: Questionnaire

NON EXECUTIVE DIRECTOR TRAINING RESEARCH

Understanding the need for Non Executive Director Training

Dear respondent

The objective of this survey is to:

- Identify knowledge gaps of non-executive director and then to develop a standard induction and training programme for non-executive directors of banks
- Provide a methodology to assess the level of knowledge of non-executive directors of banks after completion of the training programme
- Provide guiding principles on reporting of such interventions to the Registrar of Banks

To achieve this we need to understand different stakeholder's views and I would value your input and opinions.

The questionnaire is short and simple and can be e-mailed back to me.

Thank you very much for taking the time to participate in the survey.

If you have any questions, please contact Sarita Martin on 0824145146/ 011-2569865/ smartin@africanbank.co.za

Instructions: Please save this questionnaire in Word. Then call up the saved version and complete it. Once complete attach it to a new e-mail and send to Sarita Martin at smartin@africanbank.co.za or fax to 011-2569306 by no later than Friday, 27 October 2006

GUIDELINES ON HOW TO FILL IN THE QUESTIONNAIRE

A. Please answer **all** the questions except those marked for Directors or non Executive directors only,

B. Please read the instruction and check whether only one or more than one answer is allowed.

1. Besides being a legal and fiduciary requirement, what do you see as the primary role of a non-executive director? (Select one answer only and mark the relevant box)

	Place 'X' in box
Check and balance on executive	
Identifying and finding business opportunities	
Networking	
Sounding board	
Independent voice	
Experience	
Diversity	

Other (Please specify)	

2. Which of the following is the <u>most important attribute</u> a non-executive director needs to effectively contribute to a board? (Select one answer only and mark the relevant box)

	Place 'X' in box
Experience	
Expertise (knowledge and skills)	
Good personal values and character	
Other (please list)	

3. Thinking of the last year, what do you think of the <u>overall performance</u> of non-executive directors of banks? (Select one answer and tick appropriate box)

Excellent	**Very Good**	**Good**	**Average**	**Poor**	**Very Poor**

3.1 Why do you think this is so ? Please give reasons for your answer to Q 3, in the box below.

4. In your experience with non-executive directors of banks over the last year, please select the area which shows the <u>biggest weakness</u> from the list below: (Select one answer only and mark the relevant box)

	Place 'X' in box
Technical knowledge and skills	
Good personal values and character	
Experience	
Other (please list)	

4.1 Why do you think this is so? Please give reasons for your answer to Q 4, in the box below.

5. What 3 types of <u>experience or background</u> do you think a non-executive director needs to be effective on a banking board? (Select three answer only and mark the relevant boxes)

	Place 'X' in 3 boxes
Corporate experience	
Banking experience	
Entrepreneur – have started or run own business	
Have seen at least 1 credit cycle	
General Management	
Track record of board experience	

International / Global experience	
Other (please specify)	

6. **Please select the <u>3 most important character attributes</u> you think a non-executive director needs to be effective on a banking board?** (Select three answer only and mark the relevant boxes)

	Place 'X' in 3 boxes
Objectivity	
Wisdom	
Independence of mind	
Judgement	
Strong Personality	
Unconcerned with being popular or liked	
Commands respect	
Trustworthy	
Courage	
Integrity	
Independence	
"Helicopter" / Big picture thinker	
Entrepreneurial nature	
Desire to learn	
Motivation to perform	
Stress resistance	
Delivers on promises	
Ability to assert oneself	
Other (specify)	

7. **What do you think are the <u>3 weakest character attributes</u> among non-executive directors of banks?** (Select three answer only and mark the relevant boxes)

	Place 'X' in 3 boxes
Objectivity	
Wisdom	
Independence of mind	
Judgement	
A strong personality	
Trustworthy	
Unconcerned with being popular or liked	
Commands respect	
Courage	

Integrity	
Independence	
"Helicopter" / Big picture thinker	
Entrepreneurial nature	
Desire to learn	
Delivery on promises	
Motivation to perform	
Stress resistance	
Ability to assert oneself	

SKILLS

8. **What do you think are the <u>3 most important technical skills</u> a non-executive director of a bank would need?** (Select three answer only and mark the relevant boxes)

	Place 'X' in 3 boxes
Ability to reason	
Risk management skills	
Asset and liability management skills	
Leadership skills	
Management skills	
People skills	
Strategic thinking skills	
Financial skills	
Regulatory skills	
Technical or scientific skills	
Business skills	
Ability to challenge and probe information presented	
Strong interpersonal skills	
Fiduciary and Legal skills	
Other: Please specify	

8.1 **Select the <u>3 weakest areas of skill</u> among current non-executive directors of banks:** (Select three answer only and mark the relevant boxes)

	Place 'X' in 3 boxes
Ability to reason	
Risk management skills	
Asset and liability skills	
Leadership skills	
Management skills	
People skills	
Strategic thinking skills	

Financial skills	
Regulatory skills	
Technical or scientific skills	
Business skills	
Ability to challenge and probe information presented	
Strong interpersonal skills	
Fiduciary and Legal skills	
Other: Please specify	

9. KNOWLEDGE

In some instances a non-executive director of a bank may not necessarily be an expert in a field but certain types of knowledge are extremely beneficial to enable them to fulfil their obligations.

9.1 **What 3 types of knowledge do you see as being extremely important?** (Select three answer only and mark the relevant boxes)

9.2 **What are the 3 weakest knowledge areas among current non-executive directors?** (Select three answer only and mark the relevant boxes)

	Answer for 9.1 *Place 'X' in 3 boxes*	**Answer for 9.2** *Place 'X' in 3 boxes*
Academic knowledge		
Technical knowledge		
Macro-environmental knowledge		
Economic knowledge		
Financial knowledge		
Legal knowledge		
Business knowledge		
Politics of the country knowledge		
Risk management knowledge		
Asset and liability management knowledge		
Compliance issues		
Awareness and of political, environmental and social issues		
Banking and financial industry knowledge		
International business trends and best practise		
Other (please specify)		

10. **Do you think enough has been done to enhance the performance of non-executive directors of banks?** (Select one only)

	Place 'X' in box
Yes	
No	

11. If a specific training programme was developed for a non-executive director that you believe to be effective, please could you tell me about it?

11.1 Do you think such a programme should be once off or on going? (Select one only)

	Place 'X' in box
Once-off	
On-going	

11.2 Please rank in order of preference (1^{st}, 2^{nd}, 3^{rd}, 4^{th}, 5th) what you deem to be the most effective form of training?

	Rank in order of preference when 1 = most effective and 5 = least effective. Please only use each number once.
Introductory seminar / course for individuals interested in becoming NED	
Induction training – firm specific	
General training on board effectiveness and specific training in areas – business schools, consultancy, in house	
Customised NED training and evaluation programmes for a specific company by business schools, consultancy	
Coaching/Mentoring by an experienced non executive director/director	

11.3 How often do you think a non-executive director should attend a training programme? (Select one only)

	Place 'X' in box
Once-off	
Every month	
Quarterly	
Every 6 months	
Once a year	

11.3.1 Reason or comments on your response to Q 11.3 in the box below.

11.4 What would the ideal length be for a training programme? (Select one only)

	Place 'X' in box
1 – 2 days	
3 – 4 days	
More than 4 days	

11.5 What do you think should form the core content of a training course? Please list the most important subjects or issues you think should be covered in the table below.

Core Content (please list below)	***Once-off***	***On-going***

11.6 What would the best methodology be to deliver a training programme for non-executive directors? (Select one only)

	Place 'X' in box
Interactive	
By a standards body (IoB, IoD)	
Formal course	
Seminars	
Presentation	
Forums	
Continuous professional development (CPD)	
Internet based	
Other (please specify)	

11.7 Should there be a certificate of competency at the end of the training programme? (Select one only)

	Place 'X' in box
Yes	
No	

11.8 Should this be driven by an industry body? (Select one only)

	Place 'X' in box
Yes	
No	

11.8.1 If yes, which body? (Select one only)

	Place 'X' in box
Institute of directors	
Institute of bankers	
Banking Association of South Africa	
SARB	
Other: Please specify	

11.9 How should the impact of such training be measured? (Select one only)

	Place 'X' in box
Independently tested	
Board assessment	

Examination	

12.1 Should non-executive directors be compelled to maintain their knowledge via continuous professional education? (Select one only)

	Place 'X' in box
Yes	
No	

THE FOLLOWING QUESTION MUST ONLY BE ANSWERED BY NON-EXECUTIVE DIRECTORS OR DIRECTORS. ALL OTHER RESPONDENTS PLEASE GO TO Q 14 DEMOGRAPHICS

13.1 Did you attend an induction programme on appointment?

	Place 'X' in box
Yes (go to Q 13.3)	
No (go to Q 13.2)	

13.2 If no, would you have found it beneficial? (Select one only)

	Place 'X' in box
Yes	
No	

13.3. If yes to Q 13.1, Please rate how beneficial you found it? (Select one only)

Very beneficial	**Beneficial**	**Somewhat beneficial**	**Not beneficial**

13.4 Have you attended any of these courses? (Multiple responses allowed. 'X' as many as appropriate)

	Place 'X' in box
GIBS Board Leadership Programme	
GIMT Graduate Diploma in Company Direction	
RAU Certificate in Corporate Governance	
UNISA Public Sector Governance Programme	
WITS Director Induction – JSE AltX	
Other: Please specify and list	

13.5 How were you nominated to be a director? (Select one only)

	Place 'X' in box
Search firm	
Approached by CEO	
Approached by Chairman	
Approached by other director (excluding CEO or Chairman)	
Shareholder representative	
Other: Please specify	

13.6 How many years have you been a director? (Select one only)

	Place 'X' in box
1 year or less	
More than 1 and less than 3 years	
More than 3 and less than 5 years	
5 years or more	

13.7 Other directorships held? (Select one only)

	Place 'X' in box
1	
2 – 3	
4 – 5	
6 or more	

DEMOGRAPHICS

14.1 Please indicate which of the following describes your current working environment (for executive directors) and previous working environment (non-executive director): (Select one only)

	Place 'X' in box
Educational	
Politics / Government department	
Consultancy	
Academia	
Former executive	
Current executive	
Other: please specify	

14.2 In which industry sector do you fall? (Select one only)

	Place 'X' in box
Financial services sector	
Academic sector	
Manufacturing sector	

IT sector	
Retail sector	
Government sector	
Other (Please specify)	

14.3 In which capacity are you completing this questionnaire? (Select one only)

	Place 'X' in box
Non-executive directors with less than 3 years experience	
Non-executive directors with more than 5 years experience	
Executive directors with less than 3 years experience	
Executive directors with more than 5 years experience	
Industry bodies	
Analysts / Investors	
Company secretaries	
Training consultants	
Business schools	

14.4 Which gender are you? (Select one only)

	Place 'X' in box
Male	
Female	

14.5 Which age group do you belong to? (Select one only)

	Place 'X' in box
20 – 30 years	
31 – 40 years	
41 – 50 years	
51 years and older	

14.6 Which ethnic group do you belong to? (Select one only)

	Place 'X' in box
Black	
White	
Coloured	
Indian	

Thank you very much for your time, openness and honesty in answering this questionnaire! If you would like a copy of the results please mail smartin@africanbank.co.za

Appendix E: List of Respondents

A. Qualitative research:

- Leon Kirkinis, CEO, African Bank Investments Limited
- Rob Law, COO, Institute of Bankers
- Nicky Lala-Mohan, Banking Association of South Africa
- Tim Store, Chairman, Deloitte & Touche
- David Gibbon, Non-executive director
- Brian Steele, Non-executive director
- Terry Booysen, CEO, Corporate Governance Forum
- Daniel Tembe, Non-executive director,
- Bahle Goba, Non-executive director

B. Quantitative research:

- Yvette Singh, Deputy Registrar, Bank Supervision Department, SARB
- Phillip Armstrong, Head: Global Corporate Governance Forum, Washington, USA
- Sharoda Rapeti, Non-executive director, Mercantile Bank
- Mahlatse Kabi, non-executive director, FirstRand Bank
- Voyt Kryzychylkiewicz, Deutsche Securities
- Belinda Smit, Corporate Governance Company Secretary, FirstRand Bank
- Selwyn Noik, Company Secretary, Investec
- Annamarie van der Merwe, ex-Company Secretary, Director training consultant
- Nic Adams, shareholder and previous non-executive director of a bank
- Johnny Symmonds, previous CEO of a bank
- Pedro Garcao, Compliance Officer
- Frank Groenewald, CEO, BankSeta
- Gavin Bower, executive director, Rennies Bank
- Geoff Pinnock, National Assurance and Financial Services Leader, Deloitte & Touche
- Peter Macaldowie, Woodburn Mann (Pty) Ltd
- Rob Law, COO, Institute of Bankers
- Richard Wilkinson, Institute of Directors
- Leon Kirkinis, CEO African Bank Investments Limited
- Gordon Schachat, executive Deputy Chairman, African Bank Investments Limited
- Toni Fourie, executive director, African Bank Investments Limited
- Tami Sokutu, executive director, African Bank Investments Limited
- Ramani Naidoo, author, company secretary and non-executive director African Bank Investments Limited
- Gunter Steffens, previous group representative Dresdner Bank AG; now non-executive director, African Bank Investments Limited
- David Gibbon, previous National Lead Partner Securitisation and Debt Origination Services, Deloitte & Touche; now non-executive director African Bank Investments Limited
- Brian Steele, previous Group Financial Manager, Barloworld; now non-executive director, African Bank Investments Limited
- David Woollam, previous Financial Director, BoE Limited; now Financial Director, African Bank Investments Limited
- Nithia Nalliah, previous Tax Partner at Deloitte & Touche, now CFO African Bank Investments Limited

- ## Appendix F: Demographics of respondents

Length of tenure as a director

	Total	Gender		Age Group			Race Group	
		Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	15	11 73.3	4 26.7	1 6.7	9 60.0	5 33.3	11 73.3	4 26.7
1 year or less	2 13.3	2 18.2	- -	- -	2 22.2	- -	1 9.1	1 25.0
More than 1 and less than 3 years	2 13.3	- -	2 50.0	1 100.0	1 11.1	- -	- -	2 50.0
More than 3 and less than 5 years	3 20.0	2 18.2	1 25.0	- -	1 11.1	2 40.0	2 18.2	1 25.0
5 years or more	8 53.3	7 63.6	1 25.0	- -	5 55.6	3 60.0	8 72.7	- -
No Response	12	9	3	4	6	2	10	2

Other directorships held

	Total	Gender		Age Group			Race Group	
		Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	9	6 66.7	3 33.3	1 11.1	3 33.3	5 55.6	6 66.7	3 33.3
1	4 44.4	3 50.0	1 33.3	- -	2 66.7	2 40.0	3 50.0	1 33.3
2 - 3	3 33.3	1 16.7	2 66.7	1 100.0	1 33.3	1 20.0	1 16.7	2 66.7
4 - 5	2 22.2	2 33.3	- -	- -	- -	2 40.0	2 33.3	- -
No Response	18	14	4	4	12	2	15	3

Current/previous working environment

	Total	Gender		Age Group			Race Group	
		Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	22	17 77.3	5 22.7	2 9.1	13 59.1	7 31.8	16 72.7	6 27.3
Former executive	7 31.8	6 35.3	1 20.0	- -	4 30.8	3 42.9	7 43.8	- -
Current executive	6 27.3	4 23.5	2 40.0	1 50.0	3 23.1	2 28.6	4 25.0	2 33.3
Other	6 27.3	5 29.4	1 20.0	1 50.0	3 23.1	2 28.6	3 18.8	3 50.0
Consultancy	2 9.1	1 5.9	1 20.0	- -	2 15.4	- -	1 6.3	1 16.7
Educational	1 4.5	1 5.9	- -	- -	1 7.7	- -	1 6.3	- -
No Response	5	3	2	3	2	-	5	-

In which industry sector do you fall?

	Total	Gender		Age Group			Race Group	
		Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	24	17 70.8	7 29.2	4 16.7	13 54.2	7 29.2	19 79.2	5 20.8
Financial services sector	19 79.2	14 82.4	5 71.4	4 100.0	10 76.9	5 71.4	16 84.2	3 60.0
Other	4 16.7	3 17.6	1 14.3	- -	2 15.4	2 28.6	3 15.8	1 20.0
IT sector	1 4.2	- -	1 14.3	- -	1 7.7	- -	- -	1 20.0
No Response	3	3	-	1	2	-	2	1

Question 14.3 In which capacity are you completing this questionnaire?

	Total	Gender		Age Group			Race Group	
		Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	24	17 70.8	7 29.2	4 16.7	13 54.2	7 29.2	19 79.2	5 20.8
Non-executive directors with more than 5 years experience	8 33.3	6 35.3	2 28.6	- -	4 30.8	4 57.1	7 36.8	1 20.0
Executive directors with more than 5 years experience	6 25.0	6 35.3	- -	- -	4 30.8	2 28.6	6 31.6	- -
Industry bodies	3 12.5	2 11.8	1 14.3	- -	2 15.4	1 14.3	2 10.5	1 20.0
Company secretaries	3 12.5	1 5.9	2 28.6	2 50.0	1 7.7	- -	3 15.8	- -
Non-executive directors with less than 3 years experience	2 8.3	- -	2 28.6	1 25.0	1 7.7	- -	- -	2 40.0
Executive directors with less than 3 years experience	1 4.2	1 5.9	- -	- -	1 7.7	- -	- -	1 20.0
Analysts / Investors	1 4.2	1 5.9	- -	1 25.0	- -	- -	1 5.3	- -
No Response	3	3	-	1	2	-	2	1

Age. gender and race

	Total	Gender		Age Group		
		Male	Female	Under 40yrs	41-50yrs	51yrs+
	27 	20 74.1	7 25.9	5 18.5	15 55.6	7 25.9
Black	2 7.4	1 5.0	1 14.3	1 20.0	1 6.7	- -
White	21 77.8	18 90.0	3 42.9	4 80.0	11 73.3	6 85.7
Coloured	1 3.7	- -	1 14.3	- -	- -	1 14.3
Indian	3 11.1	1 5.0	2 28.6	- -	3 20.0	- -

How were you nominated to be a director?

	Total	Gender		Age Group			Race Group	
		Male	Female	Under 40yrs	41-50yrs	51yrs+	White	B/C/I
	15	11 73.3	4 26.7	1 6.7	9 60.0	5 33.3	11 73.3	4 26.7
Shareholder representative	5 33.3	3 27.3	2 50.0	1 100.0	2 22.2	2 40.0	4 36.4	1 25.0
Search firm	3 20.0	2 18.2	1 25.0	- -	1 11.1	2 40.0	2 18.2	1 25.0
Approached by CEO	3 20.0	3 27.3	- -	- -	3 33.3	- -	2 18.2	1 25.0
Approached by chairman	2 13.3	1 9.1	1 25.0	- -	2 22.2	- -	1 9.1	1 25.0
Approached by other director (excluding CEO or Chairman)	1 6.7	1 9.1	- -	- -	- -	1 20.0	1 9.1	- -
Other	1 6.7	1 9.1	- -	- -	1 11.1	- -	1 9.1	- -
No Response	12	9	3	4	6	2	10	2