CORPORATE BOARDS

Keep it Under Control

Mark Halabe, founder of Mark One Apparel. *Photo:* **Ronald Kumar**

FREDERICA ELBOURNE
SUVA

Sometimes, in a small country like Fiji, and a lack of available expertise, we must have experienced people sit on multiple boards, business owner Mike Towler said.

But Fiji should limit outside board members to two boards, the managing director for Performance Flotation Development (Fiji) Pte Ltd said.

The two appointments must not conflict with each other, he warned.

His statements were echoed by Trade Minister Manoa Kamikamica among other business leaders.

No rules

There is no rule, and no need to have a rule, about the number of boards an individual can sit on, business consultant Nouzab Fareed said.

However, the appointing authority must exercise common sense during such appointments, Mr Fareed said.

"For critical organisations like Fiji Airports, Fiji Port, Fiji National Provident Fund, Energy Fiji Limited etc, the chairperson should always be a unique individual," he said.

"No one person should head these organisations at the same time."

The previous practise was wrong, he said.

The danger of holding multiple appointments included conflict of interest and lack of concentration, or focus, he said.

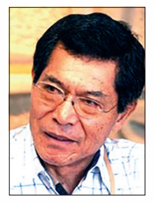
"We have a pool of skilled talent at senior level with more than 25 years of experience in their chosen field," Mr Fareed said.

"They call Fiji home and are willing to work for the nation without hesitation."

There were several reasons one person with concurrent board appointments should not be the chair of critical State-owned organisations, Mr Fareed said.

"When a person holds multiple positions of chairmanship, it can lead to a lack of checks and balances, making it difficult to hold the chair accountable for their decisions and actions," Mr Fareed said.

"This can result in unchecked abuse of power, corruption, and a lack of transparency in the organisation's operations."



Joe Mar.

Ajith Kodagoda.

Dakshesh Patel.

Historically, there are many examples in Fiji. The issue was not the person, but the appointing authorities, which failed to understand the significance of organisations.

On numerous occasions, an individual held the critical position of chairman of many organisations, at the same time.

In the past, some of these organisations like Fiji National Provident Fund, Energy Fiji Limited, Fiji Ports, Fiji Airports, Amalgamated Telecom Holdings (ATH), Fiji Investment Corporation, Investment Fiji, among others, experienced a common chairman.

According to another senior leader who held high-level positions, some individuals like Joe Mar, Ajith Kodagoda and Dakshesh Patel held multiple positions at the same time.

Mr Mar was chairman of three boards during his term as managing director Telecom Fiji Limited. He was removed from his positions under the previous Bainimarama government.

Mr Kodagoda, a former financial controller for CJ Patel group, and Sri Lankan national, was chairman for Fiji Revenue and Customs Service, Vodafone Fiji and Amalgamated Telecommunications Holdings.

Mr Patel, son of the late Vinod Patel, was chairman of Fiji National Provident Fund, Energy Fiji Limited and interim chairperson for Amalgamated Telecommunications Holdings Group.

"A chair sitting at several organisations can easily serve private interest or benefit their ego, which may bring more concern to the organisation rather than paying attention to its customers and meeting public demands," Mr Fareed said.

"As a result, the fundamentals of an organisation are endangered, and resources are misused.

"A single chair may surround themselves with like-minded individuals, leading to a lack of diverse perspectives and critical thinking within the organisation."

Managing director for Performance Flotation Development (Fiji) Pte Ltd Mike Towler

The results could include a narrow and biased decision-making process, limiting the organisation's ability to adapt to changing circumstances and address complex challenges, Mr Fareed said.

Concentration of power in the hands of a single chair could make the organisation vulnerable to abuse, nepotism, and the suppression of dissenting voices, he said.

"This can undermine the organisation's credibility, public trust, and ability to fulfil its mandate effectively," Mr Fareed said.

Business consultant Nouzab Fareed.

"When several organisations are heavily dependent on a single individual, it can be vulnerable to disruptions caused by the chair's departure, illness, or incapacity."

To mitigate risks, it is generally recommended to have a diverse and independent chairman and directors in each State-owned organisation, with the chair serving as a first among equals, rather than a dominant individual.

This ensures a balance of power, greater accountability, and the incorporation of diverse perspectives in the decision-making process.

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Limit directorship to two

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Directorship depends on time and commitment, Mark One Apparel founder and managing director, Mark Halabe said.

Speaking on the pros and cons of serving on multiple boards, he said directors did not run companies daily.

"As an entrepreneur in Fiji for over 35 years, and a recent graduate of the Australian Institute of Company Directors, I have experienced many board directorships in private companies, non-government organisations, and Government, I can say with experience it all depends on time and commitment," he said.

"Board meetings are normally spread out over a year and range from 12 meetings to eight per annum.

> *I see no reason why directors cannot read multiple board papers within a month and attend multiple one-day board meetings if they have the time and commitment.*
>
> **Mark Halabe**
> *Mark One Apparel founder.*

"In a well-governed company, directors' responsibilities normally are not those of the CEO who has operational responsibilities that require intense focus."

There was a distinct separation between governing and operational responsibilities, Mr Halabe said.

"I see no reason why directors cannot read multiple board papers within a month and attend multiple one-day board meetings if they have the time and commitment," he said.

The main responsibility of a director is to appoint, employ, and monitor the chief executive officer to ensure the company performs effectively to meet shareholder expectations.

"This is formally done on a monthly or six-week basis," Mr Halabe said.

"My personal experience is that it is possible and indeed preferable that directors serve on multiple boards if time permits, as cross-fertilisation on ideas, benchmarking, and governance policies improve organisations."

Mr Halabe founded Mark One Apparel Pte Ltd where he serves as its managing director.

Mr Halabe is the vice chairman of the board at Investment Fiji, director of Fiji Airports Limited, Director of KGF (listed on the SPSE) and Director of Island Quarries Ltd.

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Reserve Bank, Stock Exchange in spotlight for board tenure

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The central bank and the securities exchange have come under the spotlight in an academic research on corporate governance regulations.

Academics Kumari Ranjeeni and Dharmendra Naidu said the average board tenure of outside directors for listed companies in Fiji was unknown.

Ms Ranjeeni, a doctor in accounting and a master in finance, and Mr Naidu, whose doctorate examined a research question within the intersection of Financial Accounting and Management Accounting, made the remarks in a joint statement following their findings on the performance of firms from directors.

"Future research on Fijian companies should examine (average board tenure) because some outside directors may retire early, or some companies may replace directors earlier than the nine years of tenure stated in the Reserve Bank of Fiji's Prudential Supervision Policy statement No.1," the duo said.

"The stock exchange should consider providing guidance on the optimal average board tenure for listed companies; that is, what is the minimum number of years an outside director should serve on a corporate board."

Lecturer at the Department of Accounting, of the Monash Business School at Monash University, Clayton, Australia. Dharmendra Naidu

Former University of the South Pacific lecturer, and founder and owner of Pra2Njeeni, Kumari Ranjeeni.

> While the Reserve Bank of Fiji is clear on its requirement for board tenure, the average board tenure of outside directors for listed companies in Fiji is unknown. For example, if each director on a corporate board has a tenure of 5 years, the average board tenure will be well below the optimal level of 10 years as suggested by Naidu and Ranjeeni's (2023) research.

BELOW IS THE FULL EXCERPT OF THE JOINT STATEMENT (RUN ATTACHMENT IN FULL).

In a recent research publication, Dr Naidu and Dr Ranjeeni find results suggesting that outside directors' accumulated firm-specific knowledge over their tenure contributed to better firm performance during a crisis.

They find that "firms experienced optimal cumulative excess stock returns during COVID-19 when outside directors' average board tenure is 10 years". Their research specifically show that cumulative excess stock returns increase as outside directors' average board tenure increases.

However, once outside directors' average board tenure reaches around 10 years, the cumulative excess stock returns show a declining trend.

The authors attribute the results of increase in firm performance to the effects of outside directors' firm-specific accumulated knowledge and decrease in firm performance to the effects of compromised board independence due to outside directors becoming management friendly because of extended interactions with them.

IMPLICATIONS FOR CORPORATE GOVERNANCE REGULATIONS IN FIJI

The Reserve Bank of Fiji (February 2019) in its Prudential Supervision Policy Statement No: 1 states that the board tenure of independent directors should not exceed nine years.

This requirement is consistent with the results from the research by Dr Naidu and Dr Ranjeeni. They suggest that around 10 to 13 years was optimal average board tenure for outside directors during COVID-19.

They state in their paper that their results are "relevant to regulators and stakeholders of firms in the Asia-Pacific region including Australia because recent studies using Australian firms show that their average board tenure is around 6 years" (Naidu and Ranjeeni, 2023).

While the Reserve Bank of Fiji is clear on its requirement for board tenure, the average board tenure of outside directors for listed companies in Fiji is unknown. For example, if each director on a corporate board has a tenure of five years, the average board tenure will be well below the optimal level of 10 years as suggested by Naidu and Ranjeeni's (2023) research.

Future research on Fijian companies should examine this because some outside directors may retire early, or some companies may replace outside directors earlier than 9 years of tenure stated in the Reserve Bank of Fiji's Prudential Supervision Policy Statement No: 1.

While director independence is an important requirement of the stock exchange and regulators to maintain good corporate governance, Naidu and Ranjeeni's (2023) research findings imply that it is also important to ensure that companies allow enough years to outside directors to accumulate firm-specific knowledge so that they could contribute effectively.

Dr Naidu and Dr Ranjeeni suggest that the stock exchange should consider providing guidance on the optimal average board tenure for listed companies.

That is, what is the minimum number of years an outside director should serve on a corporate board. Dr Naidu and Dr Ranjeeni are interested in collaborating with industry partners in Fiji to examine these types of questions to enhance corporate governance requirements of companies in Fiji.

OUR THEORY

A sufficient average board tenure of outside directors can be particularly beneficial for a company during crisis time, like the COVID-19. In their research, Dr Naidu and Dr Ranjeeni "argue that outside directors' experience in serving at a particular firm's corporate board would have benefitted the firm during the COVID-19 crisis" (Naidu and Ranjeeni, 2023).

They further state, "Our argument is based on the theory of human capital (Brown et al., 2017; Kor and Sundaramurthy, 2009). Each outside director begins serving on a board with limited firm-specific knowledge, like new outside chief executive officers (Hambrick and Fukutomi, 1991).

Over their tenure, outside directors accumulate firm-specific knowledge, such as a firm's prior commitments, unique resources, core competencies, needs, potential sources of growth and boardroom norms (i.e. human capital) (Brown et al., 2017; Kor and Sundaramurthy, 2009). Such firm-specific knowledge may have been very resourceful for outside directors' in responding to COVID-19 challenges because they would potentially be more aware about the firm's underlying core competencies" (Naidu and Ranjeeni, 2023).

They also argue that "by serving on a corporate board for a longer period, outside directors would have accumulated knowledge through observations, management internal reports, interactions with employees and interactions with inside directors.

"During COVID-19, if long-tenured outside directors required any further information, they could have contacted inside directors directly. A higher proportion of inside directors on the board during the COVID-19 crisis imply more information sources or channels for outside directors to acquire additional firm-specific information" (Naidu and Ranjeeni, 2023).

OUR RESEARCH CONCLUSION

While a long tenure of outside directors on corporate boards is detrimental due to potentially compromised independence, a short tenure is also detrimental due to insufficient accumulation of firm-specific knowledge.

Outside directors accumulated firm-specific knowledge is beneficial for a company, and it is particularly more beneficial during crisis, like the COVID-19 (Naidu and Ranjeeni, 2023).

During their tenure as a director, outside directors not only acquire human capital, they acquire internal social capital. Internal social capital referred as prior social interactions between outside directors and inside directors over their tenure are particularly beneficial during a crisis (Naidu and Ranjeeni, 2023).

Dr Naidu's and Dr Ranjeeni's research concludes that "during the COVID-19 collapse period, US firms benefitted from outside directors' accumulated knowledge of the firm.

Our results suggest that outside directors' higher accumulated knowledge contributed to investors experiencing a lower decline in cumulative excess stock returns during the COVID-19 crisis for firms with outside directors' average board tenure of less than or equal to 10 years.

We also find that this relation is profound for outside directors with a higher internal social capital.

Our results suggest that outside directors' internal social capital accumulated through their interactions with more inside directors over more years is useful for them in utilising their human capital to contribute to board effectiveness" (Naidu and Ranjeeni, 2023).

BRIEF BIO ABOUT THE AUTHORS:

Dr Ranjeeni is a researcher and an academic. She is the founder and owner of Pra2Njeeni in Australia. Currently, she is engaging in research on corporate governance, just-in-time inventory management, supply contracting and financial reporting.

Dr Naidu is an academic and currently a Lecturer at Monash University in Australia. His current research is in corporate governance, supply contracting and financial reporting.

OUR RESEARCH PUBLICATION IN AUSTRALIAN JOURNAL OF MANAGEMENT

This paper is published in 2023 in Australian Journal of Management. The full paper is available for free at: https://doi.org/10.1177/03128962231166831

If you use the findings from this research, Dr Naidu and Dr Ranjeeni would appreciate if you cite the paper as follows:

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