

A Study of Quality of Boards of Private Entities and State Owned Entities in Papua New Guinea

Lekshmi N. PILLAI

N. Suresh BABU

Benedicta MELLAM

Patricia ANGOPA

**Presented during “2023 PNG Update” held on
17th and 18th August, 2023**

Structure of the presentation

- Introduction;
- Objectives;
- Research methodology – sampling, data collection, structure of questionnaire, tools of analysis;
- Analysis of data and findings;
- Further Scope, and,
- Conclusion

Introduction

- Performance of an organisation is inevitably based on the quality of people sitting both at Board levels and at Executional level.
- Boards play an important role as they are responsible for setting strategic directions, mobilising resources, appointing and monitoring performance of top management and protecting the interest of the principals / investors, etc.
- Also, top management reports directly to boards.
- Quality of board depends on quality of directors and good practices of those directors.

Objectives of the study

- The objectives of the study is to find the following to assess the quality of the boards:
- composition of boards;
- role / contribution of board members / directors;
- role / contribution of board committees;
- evaluation of performance of directors, and,
- conduct of board meetings and agenda.

Research Methodology - Sampling

- Qualitative exploratory data Analysis method was used.
- A sample of 15 PNG organisations were studied;
- Private entities - Finance sector – 4 (Two are listed in the PNG stock exchange).
- Private entities - Non finance – 4 (Three are listed in the PNG stock exchange and one company is a large and family owned).
- State Owned Entities (SoE) – 7.
- Personal Interviews were held with Chairman, or Director or CEO or CFO or COO, after issuing set of 24 questions in advance.

Data collection

- Primary data: The respondents were served a list of 24 questions in advance. Then, face to face interviews were held with the questions served earlier. Further, sub questions were asked wherever needed. Data were qualitative in nature. These data was converted into a table form, for the conveniences of analysis (Table in Excel format).
- Secondary data: Published information from journals, magazines and websites.
- Data collection period: 2021 and 2022

Structure of questionnaire

- All the questions are grouped under five categories:
- Basic questions – composition of boards;
- Role and contribution of Directors;
- Role and Contribution of Board Committees;
- Performance of Directors, and,
- Conduct of meetings.
- The questions were adapted from “*Crisis Prevention: How to Gear up Your Board*” by WALTER J. SALMON, *Harvard Business Review*, Jan-Feb, 1993.

Questions- Part 1 – Basic – Composition of Boards

- Are there three or more independent directors on the board for every insider?
- Are the insiders (dependent directors) limited to the CEO, the COO, and the CFO?
- Do your independent directors routinely speak to senior managers who are not represented on the board?
- What is the size of the board?
- Is there any female representation on the Board of Directors?
- Are the number of Directors appropriate / suitable for the company / organization? Please give reasons.

Questions- Part 2 – Role and contribution of Directors

- Do outside directors annually review succession plans for senior management?
- Do outside directors formally evaluate your CEO's strengths, weaknesses, objectives, personal plans and performance every year?
- Does your nominating committee, rather than the CEO, direct the search for new board members and invite candidates to stand for election?
- Do the outside directors meet without management on a regular basis?
- Is your board actively involved in formulating long-range business strategy from the start of the planning cycle?
- Does your board, rather than the incumbent CEO, select the new chief executive – in fact as well as in theory?

Questions- Part 3 – Role and contribution of board Committees

- Does your audit committee, not management, have the authority to approve the partner in charge of auditing the company?
- Does your audit committee routinely review “High-exposure” areas?
- What are those high-exposure areas, always need attention?
- Do compensation consultants report to your compensation committee rather than to the Company’s human resources officers?
- Has your compensation Committee shown the courage to establish formulas for CEO compensation based on long-term results-even if the formulas differ from industry norms? Please give an explanation.

Questions- Part 4 – performance of board members

- Is at least some of directors' pay linked to corporate performance?
- Is the performance of each of your directors periodically reviewed?
- Are directors who are no longer pulling their weight discouraged from standing reelection?
- Do you take the right measures to build trust among directors?

Questions- Part 5 – conduct of meetings

- Is there a way for outside directors to alter the meeting agenda set by your CEO?
- Does the company help directors prepare for meeting by sending relevant routine information, as well as analysis of key agenda items, ahead of time?
- Is there sufficient meeting time for thoughtful discussions in addition to management monologue?

Findings

- Part 1 – Basic – Composition of Boards
- Private entities have more independent directors and have only CEO as inside director. However, three out of seven SoE have more inside persons as directors.
- Directors of Private entities routinely speak to senior managers who do not represent the board. In the case of SoEs only two organizations out of 7 have the practice.

Findings

- Part 1 – Basic – Composition of Boards (contd...)
- All the respondents informed that size of the boards were good enough. Varies from 5 to 11.
- Two of the respondents from private entities and one of the respondents from SoEs informed that appropriateness of people needed to be increased.
- In general female representation needs to be improved as two of the private entities and three of the SoEs do not have female representation.

Findings

- Part 2 – Role and contribution of directors:
- While all the private entities have succession plans reviewed annually, only four SoEs carry out the task.
- While the independent directors of 7 out of 8 of Private entities review the performance of CEOs, only four SoEs make it as a practice.
- Six out of eight Private entities informed that CEOs are not involved in the searching of Board of Directors. In the case of SoEs, the task is done by KCH.

Findings

- Part 3 – Role and contribution of Committees:
- In line with international good practices, audit committees recommend external auditors in the private entities. Three out of seven SoEs do not have Audit Committee. The office of AG does the appointment of external auditor.
- All the respondents informed that they were assessing the risks factors regularly.
- Most of the SoEs do not have Compensation committees/ Appointment Committee, as the appointments are done by KCH.

Findings

- Part 4 – Performance of Directors:
- In line with international good practices, the directors are paid a fixed stipend, not connected with the performance of the organisation.
- While all the Private Entities make it a habit to review the performance of directors and discourage the individual director from applying for reappointment, this is irrelevant, as appointments are done by KCH.

Findings

- Part 5 – Conduct of Meeting:
- Meeting agenda is prepared by Chairman and circulated among the directors in advance.
- All the respondents informed that the sufficient time is given to the directors to go through the meeting materials. This varies from 5 days to 14 days.
- All the directors are given enough opportunity to present their views during the meeting time and management monologues are discouraged.

Further Scope of the study

- The study can be expanded to different sectors, such as Banking & Finance, private entities, listed companies, other public entities, Government Departments...
- Relationship between Governance and Organisational Performance is another possible area to be studied in the future.

Tenk you tru.