GENERAL GUIDANCE NOTE
Board size

With regard to the size of a board of directors ("the board"), it is important to note that every company is different and therefore each board needs to determine its optimal size based on its unique circumstances. There are however legislative requirements that must be adhered to as a minimum. In addition to this, King III contains some recommendations of what should be considered when determining the ideal board size.

Below is a compilation of these requirements, along with some practical guidance to be considered when determining board size.

Companies Act requirements

The Companies Act 71 of 2008 requires *private companies or personal liability companies to have at least one director; and public companies to have at least 3 directors, in addition to the minimum number of directors that the company must have to satisfy any requirement, whether in terms of the Act or its Memorandum of Incorporation, to appoint an audit committee, or a social and ethics committee.*

For example, if a public company is required to have an audit committee, it would need 3 directors to serve thereon. The social and ethics committee also requires 3 directors or prescribed officers. But there is nothing precluding the same 3 directors from sitting on both committees, provided they have the necessary skills to adequately fulfill the duties of each respective committee. In this instance, a public company would require a minimum of 6 directors to serve on its board to satisfy this legal requirement.

King III recommendations

As a minimum, two executive directors should be appointed to the board, being the chief executive officer (CEO) and the director responsible for the finance function.
When determining the number of directors to serve on the board, the collective knowledge, skills, experience and resources required for conducting the business of the board should be considered.
The following factors should be considered in determining the ideal number of directors:

- *Evolving circumstances, the needs of the company and the nature of its business*

For example, a large listed company in the financial sector may need more specialised skills on its board in order to fully understand the business and its environment. On the other hand, a smaller non-profit organisation which does not necessarily have as stringent legislative requirements, may also need a larger board in order to raise funding and awareness/profiling.

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- *The need to achieve an appropriate mix of executive and independent non-executive directors*

For example, if a company has 3 executive directors on the board (being the CEO, CFO and COO), since the board should non-executive directors, the majority of whom are independent, it would need an additional 4 independent non-executive directors to maintain the balance of power i.e. minimum board size would be 7. Should these 7 not possess the relevant collective knowledge, skills, experience and resources required for conducting the business of the board, this size would need to be increased.

- *The need to have sufficient directors to structure board committees appropriately*

Consideration should be given to the membership needs of the various board committees, in terms of numbers as well as skills requirements. For example, at least 3 independent non-executive directors will be required on the board if the company is required to have an audit committee – perhaps even more than 3 depending on the knowledge and skills of those directors, bearing in mind that King III recommends quite a wide range of collective knowledge for an audit committee. In addition, specialist skills may be required to effectively fulfil the board committee duties with regard to risk, remuneration and social and ethics.

- *Potential difficulties of raising a quorum with a small board*

For example, let's say the company's founding document or board charter requires a quorum of the majority of members of the board to be present at a meeting - if a board only has 6 directors, it would need at least 4 of them to be present at every board meeting - hence if only 3 directors are unable to attend, a quorum would not be reached. If, however a board has 15 directors, it would need at least 8 present – so 7 would be able to drop off without affecting the quorum.

- *Regulatory requirements*

Certain industries may have specific regulatory requirements which would impact on a board size.

- *The skills and knowledge needed to make business judgement calls on behalf of the company*

For example in certain industries/sectors, specialised industry/market knowledge may be required in addition to general governance knowledge/skills. In addition to the industry, the size and nature of the business itself would also impact the skills and knowledge needed on the board.

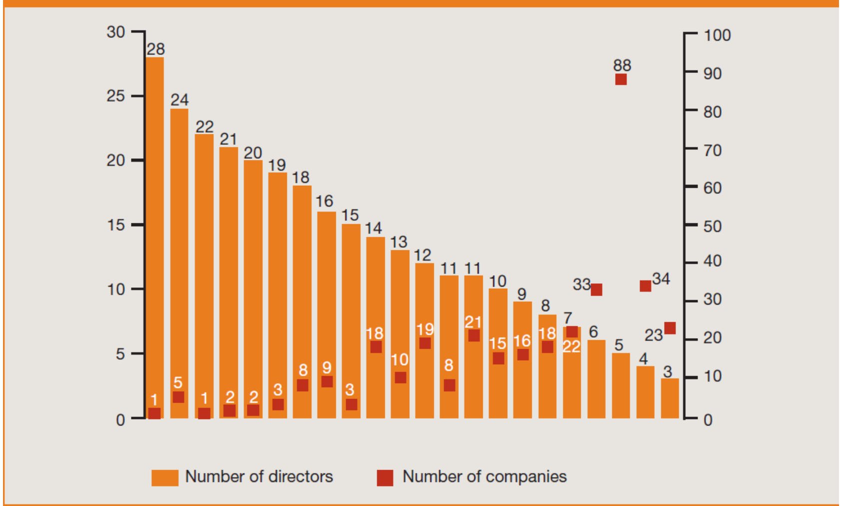
Tabular comparison of large vs small boards

	Large board	Small board
Pros	• Provides enough people to manage the workload of the board and to serve on the various board committees • More diverse views/perspectives are represented • More space for different skills and experience • Better continuity in times of leadership change • Easier to raise a quorum	• Communication and interaction is easier • Constant and meaningful involvement by directors creates satisfaction • Better feeling of unity, common purpose and ownership for the work • Easier and less expensive to manage • Meetings easier to schedule
Cons	• Every board member may not be engaged in meaningful activity and participation • Meetings may be difficult to schedule • Members may tend to defer to someone else to take on responsibility • Difficult and expensive to manage	• Workload may be too heavy for a few people • There may not be adequate representation of all points of view • Less collective skills and experience • Less continuity in times of leadership change • Potential difficulties in raising a quorum

Recent research findings on board size

According to the below graph extracted from the PwC Non-executive directors' Practices and fees trends report - January 2014, the majority of JSE boards have between 3 and 11 board members, with very few having more than 14 board members.

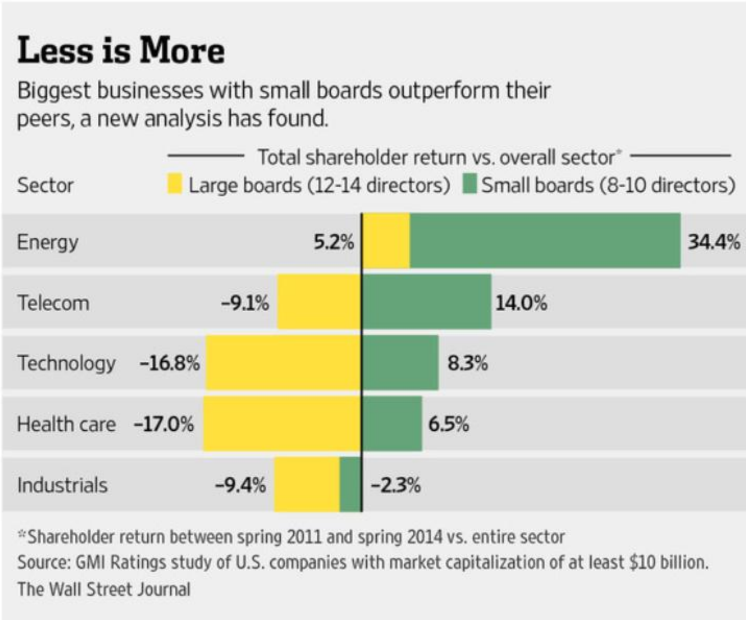
Figure 12 – Number of directors on the board



Source: PwC analysis

In global news, US companies with fewer board members reap considerably greater rewards for their investors, according to a new study by governance researchers GMI Ratings prepared for [The Wall Street Journal](#).
Among companies with a market capitalization of at least $10 billion, typically those with the smallest boards produced substantially better shareholder returns over a three-year period when compared with companies with the biggest boards, the GMI analysis of nearly 400 companies showed.

Companies with small boards outperformed their peers by 8.5 percentage points, while those with large boards underperformed peers by 10.85 percentage points. The smallest board averaged 9.5 members, compared with 14 for the biggest. The average size was 11.2 directors for all companies studied.



Conclusion

Board size does, without a doubt, influence board effectiveness. As such, each board needs to consider its optimum size, taking into account the above guidance in order to ensure effective and efficient functioning.