

Case #1: cca (board of directors)

Business, Company



From the publicly open information, the member composition of the Board Of Directors (BOD) of Coca-Cola Amatil (CCA) can be summarised as the following table (Table 1- 1). It can be easily seen that non-executive directors account for the majority of the board.

According to Tricker (1994), this particular composition is of a typical American kind, which is specifically designed to emphasis the independence among members in the board and theirloyaltyto the shareholders.

In such a market, the frequency of hostile takeover is so common a market phenomenon that masks the lack of BOD's function. In American companies' management practice, people focus more on centralisation and expert system, which reduces the importance of executive directors. Comparing with the U. S., both the turnover of Australian stock market and the frequency of hostile takeover are low, which posts a shadow on the adaption of Cola's American empirical practice into Australia. 2. Focus on non-executive directors

The non-executive directors are directors who are employed from the outside. They are normally specialist in areas such as strategic management, finance, investment, legal and public relation. In order to better fulfil the duties of a BOD, National Association of Corporate Directors Blue Ribbon Commission emphasizes that each director should contribute his knowledge in at least a field listed below:

- accounting and finance,
- judgment,
- management skills,

- crisis response,
- industrial knowledge,
- experience in international markets,
- leadership,
- strategic vision.

When they were facing situations that need industrial judgement and global vision, the limit of their knowledge would be likely to hurt the interest of shareholders. Most non-executive directors, due to their insufficient knowledge about the inner working of the company, tend to rely on financial criteria rather than innovation criteria to evaluate the long-term management of the enterprise, which may lead to short-sighted decisions and further hurt the goodwill and innovation of CCA.

Furthermore, most aforementioned non-executive directors are quite busy as they may be managers of other companies or partners of investment banks, they therefore do not have sufficient time to collect detailed management information about CCA. Consequently, the most probable channel of their source of CCA's information is from the managers. Ironically, while the purpose of establishing a BOD is to solve principle agent problems between the ownership and management, the possible information asymmetry between manager and BOD (thanks to the large proportion of busy nonexecutive directors) may result this vehicle into null.

From a strategic perspective, on the other hand, all these non-executive directors as experts in finance, investment, legal issues and science have long term experience, most of whom are over 50 year's old. They can provide more specific knowledge and advice in terms of strategic management. This

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is the positive effect of having eight nonexecutive directors in the BOD of CCA.

References:

1. Bol Tricker. , Corporate Governance, An International View, p. 20, Prentice Hall, 1994.