



Demythifying Two -Tier Board Structure

The board of any corporate entity is engaged in fulfilling three distinct types of roles: the control, strategy and service role. The way the Board is structured is integral to the level and effectiveness of corporate governance mechanisms. The Board structures differ from country to country around the world as the businesses therein operate in very different business environments and contexts

Two – Tier Board Structure

Traditionally, one tier Board system emanated under the English model and the two – tier Board form emerged under the German model of corporate governance which mandates such a board structure for all listed entities. Several other countries such as Finland, Netherlands, China and Indonesia. The two -tier board structure involves two separate bodies operating independently viz. The legal board of Directors and the Supervisory board. The management board is involved in day to operations oversight, providing strategic and service support and the supervisory board comprising of senior people having multi - faceted industry and business experience elected by the shareholders, performs advisory and control role thus facilitating long term decision making pertaining to various aspects of functioning of the company. The existence of a supervisory board enhances the credibility of the company in the eyes of the investors. The Management board works closely with the Supervisory board through a constant flow of and free exchange of relevant information between them.

It should further be noted that the supervisory duty of the Board of Advisors does never exonerate the Board of Directors of its own responsibility. It would, therefore, be rare indeed that a situation would arise where members of the Board of Advisors are held liable whilst the Board of Directors is not liable. The contrary will more often

be the case, as the mere fact that the Board of Directors is negligent or at fault does not necessarily imply that the Board of Advisors has failed in its supervision.

The comparative strengths and weaknesses of one-tier and two tier boards have been widely debated by the scholars and practitioners. In essence, the main difference between the two board structure models relates to the question whether it is desirable to have independent monitors involved in decision management. The structure of one-tier boards in which executive and non-executive directors operate on the same board jeopardizes at least to some extent the board's ability to monitor executive directors. However, Major corporate governance scandals have occurred in firms using one-tier and two-tier boards. A study Based on a sample of European companies in the STOXX EUROPE50 and FTSE30 in the year 2014, empirically indicated that the companies with two-tier board structure get high firms value.

Evolving Board structures

Growing shareholders activism and compulsions for effective corporate governance are compelling companies to look out for newer kind of Board structures. For example The “1.5” Tier Board in America. The heightened governance standards have required boards to delegate responsibilities increasingly to committees, which are growing in number, expertise and responsibility. This has diluted some of the primary advantages of the single-tier board by effectively marginalizing all board members who lack the specialized knowledge required by a particular committee. The American board may in this way be better described as a “1.5” tier rather than a one-tier board. Supervisory duties, although not legally separate like in the German model, have been heightened and delegated to the specialized committees substantively different than a to evolve

a corporate governance structure which is different from a unified one-tier board.

In conclusion it may well be said that “people will not change”, “the boardroom culture is more important than the structure” and “it is all about the persons operating a board model. All board structures would be effective when the Board has appropriate composition, consisting of people who have the requisite expertise and commitment to enhancing corporate governance standards and there are effective Board processes and procedures in place.

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Christopher Reeves