

Independence – the secret weapon for improving a board’s profile

Accountability, transparency and independence continue to emerge as the key principles for evaluating good governance. Yet these building blocks do not always ensure that organisations are operating effectively and efficiently. The question remains; why is this so? It comes down to understanding the role of the Board, how it operates and the confidence the shareholders have in the Board.

No one would doubt that nearly every board member embraces his or her role with the best intent and that professional directors welcome objective metrics to ensure that the organisation they serve is and will continue to function at optimum levels, truly adding value to the sustainability of it.

The compliance regime now in place ensures that there is accountability for decisions made in the boardroom and as a director, and that transparency encourages open and timely communication as well as good record keeping. In terms of governance employing independent directors has over the past decade taken the highest priority. Yet given recent corporate difficulties especially in the finance sector there appears to be lack of independent oversight, transparency and acceptance of accountability, particularly through when assessing a board’s policies and approaches.

Many chairs conduct an annual assessment of individual directors and often take care to induct new board members and help them to understand their role. Likewise board’s usually insist and often set up a committee to undertake the assessment of the chief executive who in turn conducts assessments on his/her senior managers.

But when it comes to evaluating the performance of the board, rather than standing back and gaining an independent perspective of how the governing procedures and processes operate, directors usually chose only to listen to themselves. Such self-assessment, although it might be useful in understanding differences board members have of the current process, it is hardly an objective view on how the board is performing and may give little comfort to allaying the discontentment in shareholders and stakeholders. In essence, self-assessment does little but allow each director to compare his or her self-perception with their peers.

History has been telling us that shareholder unrest occurs when they feel the entity is not operating at its optimum level. To overcome any such situation a board has a fiduciary duty to reassure various stakeholders that their interests are considered, and that a compliance and strategy balance inline with the organisation’s objectives has been struck. At the same time it should be evident through the demographics of the board that the competencies around the board table reflect the organisation’s strategic intent. Such reassurance for interested parties, such as investors, stakeholders, insurers and sponsors, is often missing from the communication strategy.

However having sound measures in place not necessarily brings efficiency or effectiveness. The answer lies in having measures that highlight areas of risk,

indicates how the inputs and outputs are tracking and provides some reassurance that the entity can survive tough times.

Transparency and accountability can be evidenced through the adoption of sound business practice. Independence of the other hand calls for more than just having independent directors on the board. When procedures, processes and risk are independently assessed shareholders and indeed stakeholders are more likely to experience a higher degree of reassurance that the Board is acting in their best interests. Strong assessment of Board procedures and processes can also provide the board with a targeted approach to solving issues amongst directors and for developing lagging directors so they can become a strong and effective team. Strong, credible and interlinking organisational measures enable the board to address the exact issues it needs to focus on and to develop an action plan that continually develops the capability to create value in both the short and long term for the organisation which it is governing.