



Amrop India

**Independent
Directors:**

Insights
from Our
Board Practice

“Being a Director used to be a pleasure, then it became an honour, today it might be viewed as a burden - but not if there is genuine acceptance of the contribution that wise and well meaning people can play.”

A Role for Independent Directors?

Companies first need to establish why they need the involvement of outsiders. Is it to satisfy financiers, regulators or a range of stockholders? Independent Directors play a different role from Executive Directors. They protect stakeholders from enthusiasm of the executive and they may satisfy financiers and regulators that objectivity is brought to the management task. Their job is not to second guess the executive and while they always seem to ask stupid questions of management, in their watch-dog role they have another duty and that is to stretch the executive in delivering increased shareholder value without unacceptable risk.

What Constitutes Independence?

First, independence by definition implies some loneliness. There is no point for any Board moving towards appointing independent directors to only put one such person into their ranks. It increases the loneliness. Independence implies independence of thought and separation from historical imperatives. So, the definition of independence rests as much on the negatives. A major shareholder representative, a retired senior executive, a member of a major employee union, a family association and the like, do not qualify. This is not to imply that “representative” non-executive directors do not bring value but they owe their appointment to allegiances. Some would argue that without the family, financial or management connection, there can be no real commitment but that suggests professionalism and a sense of duty are valueless.

Adding Independent Directors

The first issue is whether independence can work effectively in a climate which may be hierarchical, unused to challenge, secretive about its affairs. The owner-shareholder, with a strong focus on wealth maximisation, needs to be very careful that the purpose of the appointment is clear and that appointees do not become a cypher or a decoration. There is a balance to be struck between business heroes, who may be perceived by cynics as window-dressing, experts such as lawyers, whose services may be acquired in other ways, and sages whose great wisdom and experience can be blunted if the working culture of the Board is not open. More so, if the business environment and culture is anti-competitive or based on cartels and power blocks.

Supporting Board Processes

If the Board is to do its work properly, its focus must be both internal and external and with a long term and a short term perspective. The work of a Board covers policy setting, the confirmation of strategies to satisfy policy, the monitoring of performance in executing strategy and accountability in reporting to stakeholders. If Boards concentrate on the right things, then they can deliver against the important rather than the urgent matters. It may be that legislation requires a supporting Committee, such as Audit, and with larger Boards detailed work may be farmed out to other Committees. These should seek to inform but not make decisions because this is the collective responsibility of all Directors.

Experience in Changing Board Composition

Nearly all our experience of changes in Boards to incorporate useful independent and objective advice has come from a recognition by the Principals that they must react to the forces described above. Sometimes there has been recognition that objectively and the need for executives to explain their thinking to a critical mind adds value. For example, a food manufacturing co-operative moving into an era of industry de-regulation. For example, a successful family-owned distribution business which required external funding to satisfy its growth needs. For example, a family-owned business where the patriarch had become disinterested but recognised that his successors needed mentoring and support.

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