



**Amrop**

# Context Matters



BOARD PRACTICE

## Be the Catalyst

8 Ways for Independent Directors to Be a Positive Force For Change

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# Be the Catalyst

## 8 Ways For Independent Directors To Be a Positive Force For Change

The rules of corporate governance are changing rapidly. Spurred by shareholder activism, a strong emphasis on shareholder value enhancement and the imperative to be a responsible corporate citizen, the demands on CEO and Board are becoming stringent.

However, in many cases Boardroom practices do not meet today's demands, and this raises several questions for Independent Directors. Should Independent Directors permit the CEO and their fellow directors to stand still? Should they remain passive and not rock the boat? Or should they act as true catalysts for change? If so, what can they concretely do to exercise effective participation in the Board?

Through its well-established global search practice for Non Executive Directors, Amrop has learnt how Independent Directors have overcome such hurdles in a variety of businesses in different parts of the world.

In this article, we propose 8 ways in which Independent Directors can truly embrace their mandate as Board Catalysts.

- 1 Actively Create a Shared Purpose for the Board
- 2 Ensure Board Agendas are Consistent with Business Priorities
- 3 Speak Up and Build Alliances
- 4 Seize Opportunities
- 5 Meet the Breadth and Depth of Management
- 6 Review Strategy – Not Just Results
- 7 Encourage Offsite Meets
- 8 Do not be a Solitary Soldier

“To be or not to be? That is the question.”

William Shakespeare



1

### **Actively Create a Shared Purpose for the Board**

Directors often lack consensus regarding their accountabilities to the various stakeholders in the business or even their 'raison d'être' as a member of the Board. It is important to create a shared purpose that finely balances shareholder interest, long-term growth and the reputation of the organisation. The Independent Director can lead the discussion for creating this shared purpose. By calling for a debate, and upon reaching consensus through dialogue, a framework can be created for shared purpose and the pursuit of individual agendas in the Boardroom minimized.

2

### **Ensure Board Agendas are Consistent with Business Priorities**

Boards need to feel comfortable with agendas and these should focus on looking for the right issues at the right time. Once again, balance is key. Whilst past performance reviews and discussions surrounding legal and administrative compliance are vital, strategic issues need equal weight. Product and service innovation, the performance of key people, budget prioritization, industry trends and overall financial structure – all must be present on the radar and the weight of agendas equally distributed. Furthermore, it is the responsibility of the Independent Directors to prevent the agenda from becoming the "CEO's agenda." The Directors should act collegially to achieve equilibrium between current operation, industry dynamics and future growth

3

### **Speak Up and Build Alliances**

Conscientious Independent Directors can create change in governance practices in a positive way by speaking up and helping others to do the same. Even amongst equals, or facing giants of corporate leadership, an individual who is outspoken on a one-to-one basis may not want to expose him- or herself in a group. He or she may adopt a passive stance, and an ineptly facilitated group will allow him or her to remain there. It is therefore important to reach out and build alliances. Through forming a Governance Committee, issues can be brought out in an open and candid environment - and all voices heard.

Past performance reviews and legal and administrative compliance are vital. Strategic issues need equal weight.

4

### **Seize Opportunities**

Some situations are a springboard for an Independent Director to ignite a change – mergers, acquisitions, spin-offs, restructuring and CEO succession are all good opportunities to inject new ideas enhancing the collegial effectiveness of the Board.

Independent Directors should seize these opportunities and thus lead the way towards the new.

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### **Meet the Depth and Breadth of Management**

It is not uncommon for a CEO to present the same company executives at each Board meeting. To maintain objectivity, to benefit from the insights generated by diversity and indeed to get a first-hand view of management capability, Independent Directors should ask for opportunities to engage in an in-depth dialogue with the breadth of top management.

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### **Review Strategy – Not Just Results**

An ideal way to create engagement opportunities is to have a frequent review of strategy – a “how are we doing” dialogue focusing on a critical aspect. As mentioned previously, this can be achieved by ensuring that each Board agenda puts such a discussion on the agenda.

Yet, how can we ensure that we are having the right discussion and drawing the right conclusions? Mistaken assumptions of one or more parameters outside the company’s control are all-too-frequent causes of gaps between projections and performance. In a strategy review it is therefore vital to debate the assumptions on which that strategy is built. The presence at Board meetings of the executives involved in strategy preparation enables a direct evaluation of their ability to anticipate and analyze trends, be these regulatory, economic, social or technological, and the impact of these on the business. It also enables Independent Directors to assess how well their Board-level colleagues are willing and able to process the information.

The Independent Director can take the initiative to have this strategy review dialogue and contribute with the breadth of knowledge he or she can bring to the Boardroom.

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### Encourage Offsite Meets

Many companies conduct at least one annual meeting offsite, typically devoted to reviewing the business strategy and annual plan. Is it enough? A change of venue of the Board Meeting to an offsite location can help create a welcome and much-needed shift in the dynamics of Board interaction. The opportunity to informally mingle with other Directors as well as meeting the entire group of executives leads to valuable insights. The Independent Directors can initiate a change of venue, agenda and interaction format and thus pave the way for better Board dynamics.

8

### Do not be a Solitary Soldier

A solitary independent voice on a Board is all too easily stifled. It is therefore important to ensure that the directors designated as 'independent' are truly so. We invite every independent director joining a Board to thoroughly check the true 'state of independence.' Unfortunately, being a friend of the CEO rather than having a pecuniary relationship with the company does not constitute independence and may not be so perceived. Above all, after joining the Board, it is important to work in a collaborative manner with fellow Directors and enlist their endorsement to optimum corporate governance.

It is not always easy to disturb embedded paradigms and deal with the defense mechanisms that can result and it is tempting to quit at the first signs of stress.

### In conclusion:

It is not always easy to disturb embedded paradigms and deal with the defense mechanisms that can result and it is tempting to quit at the first signs of stress. Resilience is helped by remembering that one makes a greater impact whilst remaining on the bus than by stepping off and criticizing its workings from afar. Independent Directors who have persevered and have objectively worked with top management, as opposed to micro-managing top management have ultimately delivered value. As in every other situation, the Independent Directors' leadership skills and strong interpersonal capabilities will ultimately prevail. We finally invite you consider a tough but fair quotation from William T Allen, Chancellor of the Delaware Court of Chancery and a leading corporate governance thinker:

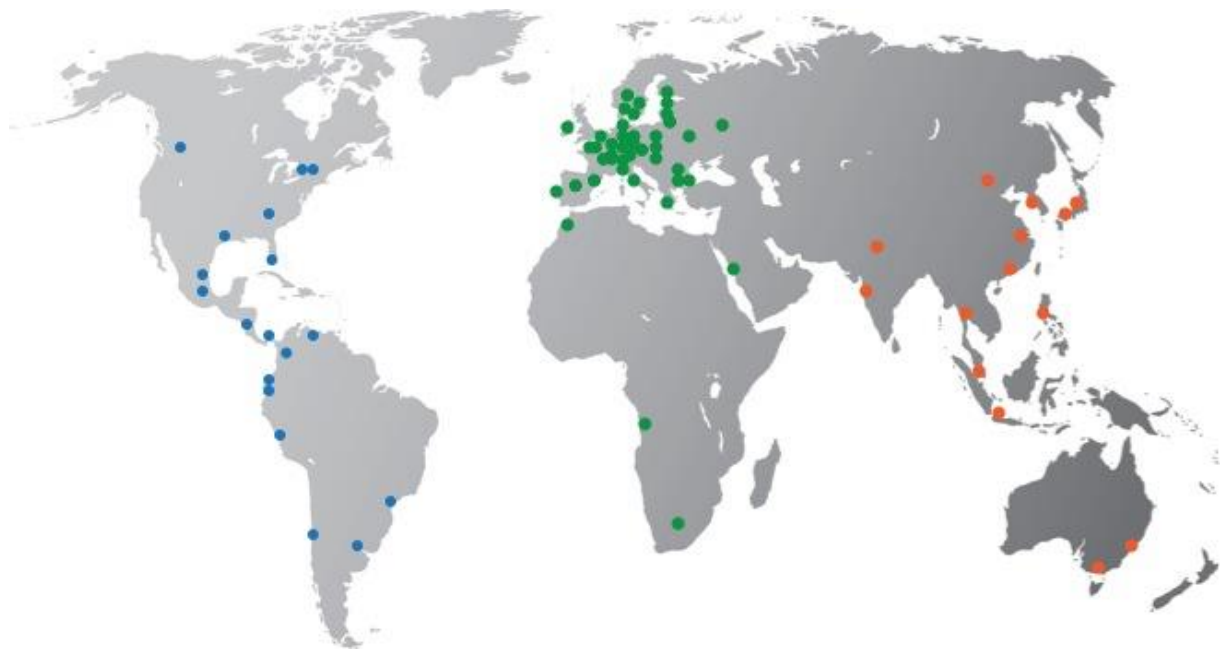
*"Men and Women who as Directors are passive; who view their role as mere advisors; who are pliant and pleasant, but do not insist upon a real monitor's role, do small service to any one and deserve little respect."*

Authors: Partner Team, Amrop India

## About Amrop

With 84 offices in 56 countries, Amrop provides services in Executive Search, Leadership Assessment and Board Consulting. It is the largest partnership of its kind.

Amrop works with existing Boards as well as helping start-up organizations ensure that their Boards of Directors are appropriate to the aims and core business of the company and compliant with Governance rules and regulations.



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