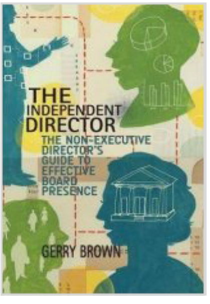
# **The Independent Director**: The Non-Executive Director's Guide to Effective Board Presence




**Gerry Brown**

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Everyone can clearly see a strategic misstep or scandal afterwards. Hindsight often allows the underlying causes of particular board failures of governance or direction to be exactly and expertly identified. A better skill would be able to do so beforehand. But what are some of the warning signs to look for?

In *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence*, experienced non-executive director and board governance expert Gerry Brown, has identified eight tell-tale board level pathologies that allow investors, analysts and commentators alike to spot companies and boards on the curdle before they do so. Brown believes that there needs to be a good balance between executives and independent non-executives to manage the complex series of decisions and trade-offs that any business requires. If this elusive balance gets out of kilter, the board runs the risk of destabilizing pathologies that invariably drive the company towards the rocks of poor governance, poor performance and/or scandal.

Greater corporate scandal frequency and business world where buck often apparently doesn't actually stop at the top fuels perceptions that rewards don't come with responsibility and that executive supervision is often extremely lax. Popular belief that it's jobs for the boys drawn from the Old Boy network for non-exec board appointments compounds public and press cynicism about the contemporary realities of the business governance, strategy and regulation. But as the author explains in *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence* things don't have to be that way.

Indeed, if the business world is to regain public confidence, it has to be seen to be narrowing the gap between the interests of those at the top of an organization and interests of the organization, shareholders and the public.

The author succinctly outlines eight real immediately available strategic and supervisory benefits Independent Directors offer to shareholders, pension funds, investors, management and the public alike right now. Independent directors are often expected to chair at least one board committee. In order to do so, they need to develop expertise in the committee's area of focus. Audit committee chairmen must be qualified accountants; remuneration committee chairmen must be familiar with the issues around remuneration and so on.

As well as overseeing formal due diligence, independent directors are expected to scrutinize valuations, consider the strategic importance and value of any new acquisition, advise on the competencies of its management team, and consider any broader business issues.

Independent directors should be able to analyse the company's current strategic position; understand key strategic issues (including marketing, financial, operational and human resources issues; and the relative of merits of mergers and acquisitions and alliances or partnerships), be able to develop strategic options, assist in the choice of a strategy, and then monitor its progress.

The directors should be familiar with human resources management, including appraisal, recruitment, selection, training and development, and remuneration for the executive team in particular. They should also be financially literate and be able to understand cash flow and liquidity, debt-to-equity ratios, profit forecasts, capital requirements, financial controls, bank support, and insurance.

Directors need to be aware of how corporate governance has evolved and be familiar with the relevant codes. They should be directly involved in a range of issues, including directors' remuneration, shareholder relations, and in particular relations with institutional shareholders, audit, and reporting requirements.

Among the roles independent directors are expected to play are those of sounding board, counsellor, challenger, facilitator, and coach to the CEO and other senior executives. They are there to assist the executive team, but not follow them blindly and must be prepared to stand up and be counted if they disagree fundamentally with what the executives propose to do.

Independent directors oversee the relationship between shareholders and management, acting as a bridge between investors and management. This means understanding shareholders and building personal relationships with them. It includes monitoring investor communications and taking appropriate account of different shareholder perspectives on the company's strategy and business issues, for example executive remuneration. Supervising exit strategies and change of control of companies require special attention.

The Independent Director is hugely timely, and contains a wealth of guidance and case studies built on decades of real market experience. Written by a practitioner, with the help of 30 experienced industrialists, *The Independent Director* provides a fascinating and honest account of the opportunities and pitfalls of the life as an Independent Director. A must read for the corporate world.