



Independence and engagement drive an effective board

Taking an independent stance and engaging on the hard questions is crucial for a principled and effective board of directors.

“No more is this more critical than in South Africa where almost daily we read of cases where sound governance has not prevailed,” says Sandra Burmeister, Regional President of N2Growth Africa.

“Boards are under pressure from sceptical investors, tighter government controls and escalating labour demands. One of their prime responsibilities is to formulate strategy for the long term. To do this, directors must be able to navigate shifting and uncertain circumstances.

“This means being able to evaluate risks without access to full information. It means using a balance of evidence and instinct and being comfortable with ambiguity. It also means considering different perspectives, seeking innovative ideas, and exploring opposing views so as to make effective decisions.”

However, Burmeister contends, boards have not moved far away from the Old Boys’ Club. “The tougher the market, the more often the chairman seeks people he knows, or those closely associated with the business,” she says. “This often leads to a lack of investment in new board members with an independent, original line of thought.

“In 2008 when the market crashed, directors were replaced by veterans who had been through difficult economic times before. The argument was that they really understood the company, knew how to cut back, and could turn the business around. There’s some merit in that view. But too many of us look in the rear-view mirror, believing what worked before will work again.

“Now there’s a call to arms. Innovation and new thinking are what is needed. This means looking forward, so we can build board muscle over a period of time.”

A recent PwC survey found that more than one third of directors in the US believe the biggest obstacle to replacing an underperforming director is that the board is uncomfortable addressing the problem. “This is just as likely to be the case in South Africa,” says Burmeister. “It’s a case of cronyism versus independence.

“Independent directors are more likely to ask difficult questions than those with shares in the company and an overriding interest in its short-term performance. Independent directors are more likely to be able to look at the board from the outside in instead of the inside out.”

“Non-executive directors have a particular role to play, bringing independence of judgment and a challenging mindset to their role,” says Dr Douglas Board, advisor on board services to N2Growth Africa. “They also need to acknowledge the role politics and intuition play in the boardroom. A purely rational scientific approach has held sway for too long. Consideration of the role of politics and intuition can help avoid blind spots in board thinking.

“During the financial crisis, non-executive directors were, collectively, a watchdog that did not bark – or bark loud enough. Without challenging discussion in the boardroom, directors are setting themselves up to fail. Only by robust debate can we avoid a repetition of the scenario of the past.



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“Board directors would do well to ask: ‘How well is our board addressing the political issues that should engage our attention? How much do we encourage effective challenging within the board itself?’”

Burmeister argues that independent directors are needed to provide a moral compass. “Although not always achieved in South Africa, it’s a requirement of corporate governance that directors should not sit on too many boards,” she says. “Only then can they engage meaningfully, and exercise proper oversight.

McKinsey research indicates that effective directors spend twice as many days a year on board activities than other directors do. They are “engaging between meetings, engaging with strategy as it’s forming, engaging on talent, engaging the field and engaging on the tough questions”.

“Board harmony is often confused with effectiveness,” says Burmeister. “Robust questioning is critical for an effective, fully-functioning board. The challenge is combining hard questions with robust, engaged relationships.

“Generally the cadre of non-executive directors is drawn from the executive rank. We don’t have a training ground for instilling the skills needed for shifting from an operational role to one of earnest engagement.

“The same is true of the chairperson role. Functioning effectively as a chairperson requires exposure to diverse board dynamics, business models, geographies and people. Optimum board composition is complex, and the chairperson must build the board from a comprehensive perspective. That means managing conflict where necessary and bringing together disparate views to keep the board functional while allowing innovation to flourish.”

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