

Independent Directors, Trend from Diligent Institute's Recent Modern Leadership Report

*Ms. Edna Frimpong

“

Attaining good corporate governance practices serve as the means to keep companies and their boards in check.

Independent directors are increasingly being seen as critical to effective corporate governance as they act as the gateway to safeguard overall stakeholders' interest. At a time when digital disruption, complexities in the geopolitical landscape, and the speed of information are all increasing, companies are under an incredible amount of pressure to perform well for shareholders and stakeholders alike. Attaining good corporate governance practices serve as the means to keep companies and their boards in check. In 2019, a Diligent Institute Report on the S&P 500 found that Companies with corporate crises fueled by governance deficits including lack of independent directors underperformed their sectors by 35%, on average, a year after the incident, losing approximately \$490 billion in shareholder value.

Another recent collaboration with ESADE Centre for Corporate Governance- 'Modern Governance and ESG: Connecting Board Effectiveness and ESG Maturity' (June 2022) also found that having a senior independent director on a board have a relatively higher correlation with environmental and social scores. The research was conducted on over 6000 publicly traded companies from Diligent's database.

However, what is the distribution of independent directors on boards across jurisdictions? Perhaps the answer lies in Diligent Institute's recently launched Modern Leadership report- '2022 Global Modern Leadership Report'.

Board Level Independence

In September 2022, Diligent Institute partnered with 22 external partners including Instituting of Directors, India to

produce its first edition of modern leadership report. The report provided an extended and comprehensive analysis of various metrics of diversity including independence level in the boardroom. The geographical representation of partners also gave the report a good balance of data from other regions otherwise not covered by Diligent's database.

On the independence level of boards, we found that overall, data from diligent suggests that independent directors hold close to 2 out of 3 boardroom seats. Approximately 65% of board seats are held by independent directors in our dataset. The data also suggests that women directors are 1.4x more likely to be independent than their male counterparts. This disparity could perhaps be explained by the fact that there are relatively far fewer women in the C-suite of public companies compared to men, which is the pool that many dependent directors are commonly pulled from.

Independent Directors - A closer look at regions

Australia

Data from Diligent suggests that independent directors form approximately 71% of directors in the region. However,

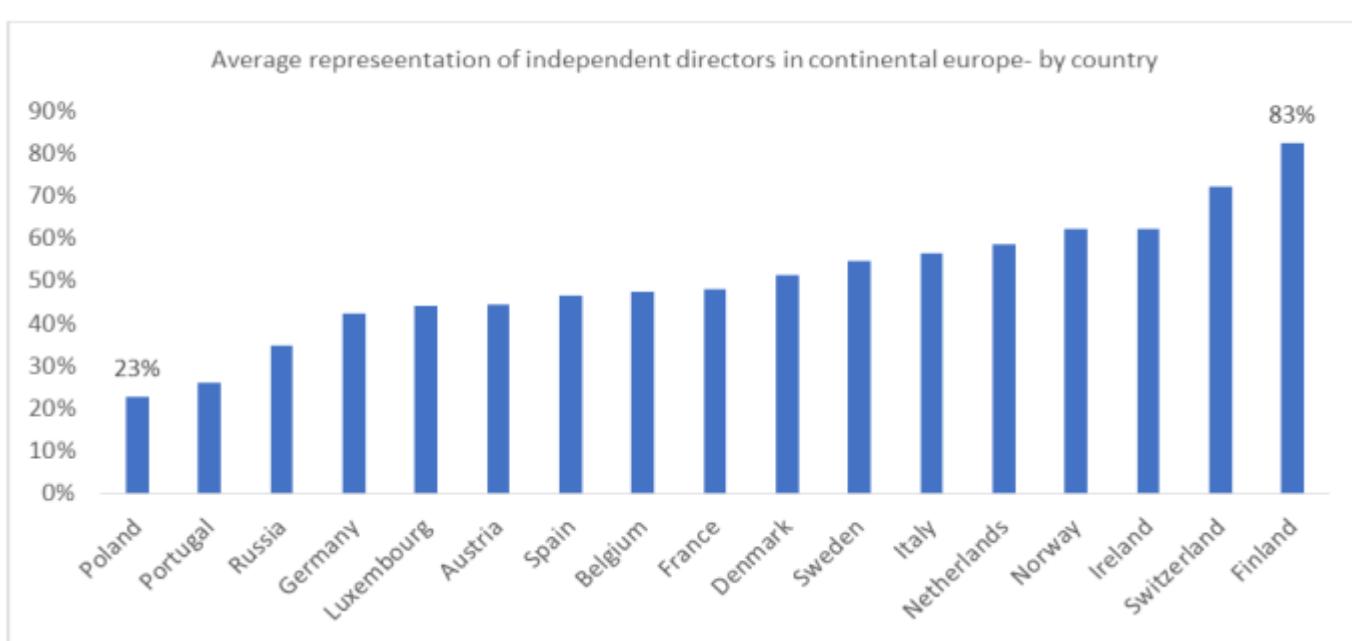
segregating the data by gender, we found that 87% of female directors in the region are independent compared to 64% of their male counterparts on average.

Canada

Canada has the highest representation of independent directors in our dataset. Data from Diligent suggests that independent directors hold close to 8 out of 10 board seats on average in Canada. However, segregating the data by gender, we found that 91% of female directors are independent compared to 75% of male directors.

Continental Europe

In the EU, we found that surprisingly 1 out of 2 board seats are held by independent directors which significantly trails the other regions we have highlighted above. This is driven in parts by countries such as Poland, Portugal and Russia with less 23%, 26% and 35% of average independent directors. The average representation of independent directors in Finland is however at 83%.



The United Kingdom

In the United Kingdom, data from Diligent suggests that 74% of board seats on average are held by independent directors which is a growth of 2 percentage points in 2019. Female directors are however likely to be more independent relative to their male counterparts. 90% of female directors are independent comparative to 68% of male directors.

United States

In the United States, our data suggests that on average 79% of

directors on average are independent directors. However, 91% of female directors are independent compared to 75% of male directors.

Japan

Japan has the least representation of independent directors in our sample. Less than 40% of board seats are held by independent directors in Japan. However, 75% of female directors in Japan are independent compared to 32% of male directors.

India

Data and commentary submitted by Institute of Directors, India (IOD) for the modern leadership report suggested that as of March 31, 2022, board composition of NIFTY 50 companies averaged at 50.61% of Independent Directors. It was also found that the range of board-level independence ranged from 10-80%. The spotlight on Independent Directors and their role in the boardroom has come to light and taken new significance in the last two-three years in India, with the regulator focussing on various aspects including their appointment/reappointment and removal, eligibility and cooling-off period requirements, resignations, remuneration, composition ratio in Audit Committees, and D&O insurance.

Conclusion

The value of independent directors on boards cannot be overemphasized. INCAE Business School from Latin America conducted a survey for Diligent Institute's modern leadership report. A respondent noted in the survey "on a board, the diversity of the participants is essential. Having independent

directors who do not work in the company is always positive since it brings new ideas and ways of seeing the various situations a company must face, which in our case is real estate".

Another respondent noted "In the case of family-owned companies, another common concern among men and women is the lack of external, independent directors on their boards. Non-executive, independent Directors can bring fresh perspectives to the boards. In the case of family-owned companies, independent directors can balance the power between the family members". (Both comments were submitted anonymously by respondents of INCAE Business school diversity survey). ■

***Ms. Edna Frimpong** is the Director of International Research at the Diligent Institute, Diligent Corporation's arm that informs, educates and connects leaders to champion modern governance.