SPECIAL MESSAGE

Independent Directors on Boards: Perspectives

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Who would you want guiding your company? Of course you want those with deep knowledge and a vested interest in the success of the company...but is that enough? Or does an "outside-in perspective" from independent, experienced directors provide a great balance?

An independent director is a non-executive director without a relationship of any kind with the company that may affect the independence of her/his judgment. Thus, majority shareholders, suppliers, providers of legal/audit/consulting services, recent management, customers or those related to management cannot be independent directors.

As I have observed from serving on public and private boards in the US, India and Canada, there are multiple benefits of having independent directors. The company gets objective perspectives from the "outside world" that have no risk of being implicitly or explicitly influenced by personal gains for the director. As the independent director has no vested interest, she/he will make decisions purely based on the best interests of the company's shareholders. This means the presence of independent directors contributes substantially to the corporate credibility of a company and a board, offering a strong complement to the perspectives of the management team, executive chair and CEO.

Independent directors bring a breadth of experience, backgrounds and insights to a board that can benefit the company. For example a company will typically choose a few independent directors that are financial experts, thus enhancing the "watchdog aspect" of the audit committee. Independents might also be good at helping to assess and manage risk. They can also improve governance on critical topics such as CEO succession, ESG, cybersecurity and compensation, by their knowledge and by bringing best practices from their other boards/companies.

Interestingly, independent directors also provide the opportunity to diversify the board by gender, race, or other aspects of diversity. The data clearly shows that diversity in the employee base, the management team and the board drives better financial performance. "At the board of directors level, more ethnically and culturally diverse companies were 43% more likely to see above-average profits, showing a significant correlation between diversity and performance," as reported by McKinsey & Co.

What's not to like? ■

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