

# PROFESSIONALISING INDEPENDENT DIRECTORSHIP

BENEDICT LIM

Independent directors (IDs) play an important role in corporate governance of companies, both private and public. IDs are engaged to bring objectivity to the oversight function of the board and improve its effectiveness in ensuring optimal outcomes for the company.

## HIGHER DEMANDS ON INDEPENDENT DIRECTORS

To effectively navigate the challenges and sensitivities of their role, IDs must be independent minded, but also be able to operate as team players. They must have an adequate breadth of experience. Besides specific industry experience, IDs are expected to possess

sophisticated communication skills; be self-confident without being dogmatic; be passionate about business; and have clear, creative and visionary judgment. These are the “core” characteristics that IDs should have in order to deliver the right value in their contributions to the board.

The Korn/Ferry Institute’s study on *Exceptional Independent Non-Executive Directors 2011* concluded that the economic stresses of recent years and the ever-growing demands for responsible governance have resulted in a fundamental shift in the requirements of the non-executive director (NED) or ID role.

“NED independence is still vital, but competence has become paramount... Today’s NEDs must be more engaged, more numerate and more technically competent than ever before... The dominant trend is one of increasing commitment, expertise and professionalism,” the report said.

Specifically, NEDs or IDs today are expected to commit more time to their role, and on top of that, have the expertise or ability to tackle risk, finance and technology with greater agility.

## THE SEARCH

Given the importance and the enhanced demands required of IDs, companies which are intent on putting together an effective board should cast their net as wide as possible. The aim is to identify those suitably qualified and experienced candidates who have the time and availability to meaningfully contribute to the board.

Indeed, the Code of Corporate Governance recommends that there should be “a formal and transparent process” for the appointment and re-appointment of directors to the board.

However, for the longest time, the appointment of IDs was made through known relationships between the principal executive

directors and the candidates. There are two ways to view this: an existing relationship allows the executive director to assess the capability, competency and value that the candidate can bring to the board. Conversely, a known relationship can be misconstrued as an understanding that the candidate would not oppose the will of the executive directors in the conduct of board matters.

## THE WAY FORWARD

Here, I would like to suggest three progressive steps to raise the quality and professionalism of IDs.

First, companies should put in place a comprehensive process of appointing IDs which includes tests for true independence. One way is by sourcing candidates through professional third parties instead of through personal contacts of existing directors, management and/or parties involved in the listing process.

Many of the top professional search firms conduct director searches in addition to executive searches. SID also has a Board Appointment Service which seeks to provide companies with an affordable service that identifies potential board members from among the Institute's members.

The goal should be to evolve the appointment processes for independent directors into standard process which is generally accepted industry-wide.

Second, more IDs should consider it a profession instead of just a secondary role in their employment portfolio. This could pave the way for the creation of a viable career option for mid-to-senior management professionals. At the same time, it will build a critical pool of professionally qualified and competent IDs.

SID, as the national association of directors, seeks to make directorship a profession. It has developed a comprehensive

professional development curriculum for the full range of director's needs, from aspiring directors through to international directors and board chairmen. In addition, SID's Code of Professional Conduct for Directors and Continuing Professional Development Program ensure that its members uphold the highest standards and the levels of competency remain adequate, updated and relevant.

Finally, the most effective means to recognising professional credentials and uplifting standards is for listed companies and the regulators to recognize the professional charter. If IDs are required, either by regulation or practice, to have directors' professional qualifications through SID or equivalent institutes such as the Australian Institute of Company Directors or the UK Institute of Directors, this will have a significant impact on the selection and quality of directors.

An objective and transparent director search and recruitment process, directorship as a profession and the industry and statutory recognition of the requirements for the professional ID may be the leg up Singapore needs to raise the standards of corporate governance here – further cementing its reputation as a well-established and secure business and financial hub. ■