

The Lead ID: How is he supposed to lead?

By

ADRIAN CHAN

Partner and Head of Corporate, Lee & Lee

Of the different types of director, one of the least understood is the lead independent director. How should he in fact lead? And is he necessary only as a check on the power of a board chairman who is not independent, or is there always a need for a Lead ID?

The lead independent director (or Lead ID) was officially first introduced in Singapore in the 2005 Code of Corporate Governance. The 2012 edition of the Code currently provides that a Lead ID should be appointed essentially when the chairman of the board is not an ID (Guideline 3.3).

His role is then described as having to be "available to shareholders where they have concerns and for which contact through the chairman, the CEO or the chief financial officer has failed to resolve or is inappropriate". It is also suggested that all the IDs, led by the Lead ID, "should meet periodically without the presence of the other directors, and provide feedback to the chairman after such meetings".

Beyond this, not much more is stated about what the Lead ID should do. The last mention in the Code is a statement that "the Lead ID,

if any, should be a member of the Nominating Committee" (Guideline 4.1). However, it does not explain why and what his role there should be.

The UK Experience

The United Kingdom has had a longer experience with the equivalent of the Lead ID, with what the UK Corporate Governance Code calls the Senior ID. The UK Code prescribes the additional role of the Senior ID as leading the non-executive directors in annually appraising the chairman's performance.

The Senior ID should also "attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders".

Baroness Sarah Hogg, who is the Lead ID of the UK Treasury and the former Chairman of the



UK Financial Reporting Council, has described the Senior ID as a great invention of modern corporate governance, almost as important as the separation of chairman and CEO. In her view, the Senior ID can, and indeed must, speak truth to power and tell the chairman or the CEO to change behaviour or go. More than that, she calls for the Senior ID to facilitate board debate and be the anchor in a storm.

The Singapore Experience

Interestingly, the first Lead ID in Singapore was appointed by Keppel Corporation in 2002, even before the Code recognised the concept. At that time, Lim Chee Onn was Keppel's executive chairman and CEO.

The Code recommends the separation of the roles of chairman and CEO. As a check and balance, Keppel's board appointed a Lead ID, Lim Hock San, CEO of United Industrial Corporation. Mr Lim held the position for four years until Tony Chew took over. When Lee

Boon Yang succeeded Lim Chee Onn as an independent non-executive chairman in 2009, the board felt that there was no longer a need to have a Lead ID, given the clear separation of the roles of the chairman and CEO.

Lim Chee Onn found the position of Lead ID on Keppel's board to be "an effective and useful one". In his view, the Lead ID should "be diligent, experienced and command the respect of the other IDs. He should be a sounding board for the chairman to bounce off ideas so that blind spots are eliminated". Mr Lim believes that the Lead ID should be the more senior of the IDs so that he has sufficient standing when interacting with the chairman.

Mr Lim noted that the Lead ID's responsibilities are heightened during periods of stress. This could be when the chairman or CEO vacates his position unexpectedly, or when there are disputes among different groups of directors.

Mr Yap Chee Keong concurs that the extent of the Lead ID's role can be situational.

Mr Yap was the Lead ID of The Straits Trading Company and Tiger Airways. He acknowledged that if the chairman is acting in the best interests of all stakeholders then the role of the Lead ID should not be so pronounced. However if the chairman is the controlling shareholder or is not regarded as independent then the Lead ID may have to assume a more substantive role.

Having been a Lead ID of four listed companies myself, I have found that the interactions and bonds built up between directors during the more peaceful periods were useful in either avoiding the periods of stress or in reducing the tensions during more turbulent periods.

The need for a Lead ID

The SID-ISCA Singapore Directorship Report 2016 shows that there are 396 Lead ID seats, a significant increase of about 30 per cent over the 304 Lead IDs in the 2014 Report.

However, among the 548 listed firms that should have appointed a Lead ID as recommended by the Code, only 67.9 per cent have done so, with the mid-cap companies with the highest compliance rate of 74 per cent. In contrast, 15.4 per cent of listed firms actually have a Lead ID appointed even when it is not required by the Code. This raises the interesting question of whether there should always be a Lead ID, even in the presence of an independent chairman.

One school of thought is that this might create some confusion and overlap in the roles. After all, if the chairman of the company is already an ID, how can the Lead ID be senior to him?

On the other hand, if there are issues or difficulties that arise with the independent chairman, then the presence of a Lead ID could

be helpful if he takes leadership of the board in seeking to resolve the issues with the chairman.

The key, it would seem, is to clarify the roles and responsibilities of the Lead ID in a formally-approved set of terms of reference for his appointment, so that there is no confusion and, indeed, clearer understanding of the functions that he is supposed to play.

Guidance on a Lead ID's functions can be found in the pages of SID's Nominating Committee Guide, which sets out the following examples of the responsibilities that can be assigned to a Lead ID:

- Chairing board meetings in the absence of the chairman of the board.
- Working with the board chairman in leading the board.
- Providing a communication channel to other IDs and non-executive directors for confidential discussions on their concerns regarding board affairs, if needed.
- Playing the role of a mediator for other directors to resolve conflicts as and when necessary.
- Helping the Nominating Committee conduct the annual performance evaluation and develop the succession plan for the board chairman and, if necessary, the CEO.
- Helping the Remuneration Committee design and assess the remuneration of the board chairman.
- Attending meetings with major shareholders to listen and understand their concerns, which will assist the board in making balanced decisions.

It is hoped that more companies which are required to have a Lead ID should appoint one, and clarify the scope of his duties in his formal letter of appointment or in terms of reference that are approved by the board. ■