

BEING AN INDEPENDENT DIRECTOR ON A SUBSIDIARY OF A STATE- OWNED ENTERPRISE



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Focus and Purpose

As an Independent Director on a state-owned enterprise there are some important differences from publicly listed companies, not least that there is one shareholder rather than the multitude of shareholders in the listed environment.

In theory, this should make the board's work easier and it often does. However a key element here is the clarity with which the parent company has set out its

objectives for the subsidiary board and how this is reflected in the board structure and the skills around the board table.

An Independent Director should find it very useful to sit down with the Chairman and / or CEO of the parent company board and discuss their expectations of the subsidiary board and also what their expectations are of an Independent Director. In most cases their expectations are fairly clear and often tied into objectives for a wider group of companies.

However, an Independent Director will find that tension can arise where, for example, the subsidiary is a regulated business and thus has commitments and duties that do not also fall on the parent company. It is important in these circumstances that the Independent Director is clear on his primary duties as a board member of the subsidiary company and explains these to the parent company, where appropriate.

Role & Skills

An Independent Director needs to be clear about why they have been appointed to the board. What skills precisely does he bring and, more importantly what is it that the board wishes to maximise from his skill base.

He should spend time with the Chairman and the CEO exploring what their expectations are of him and then plan how he will deliver on these expectations.

An Independent Director should also seek feedback regularly from the Chairman as to how his contribution is perceived and what action may be required.

Additional Skills

Also consider which additional skills he brings. If the Independent Director has experience, for example, of running a large business then perhaps he can act as a mentor or coach to one or more of the senior management team.

Care needs to be taken in managing the expectations of the mentee as well as

those of the CEO. For example, he would make it clear to the CEO that there will be no direct feedback to him/her on these mentoring discussions. Instead it would be up to the mentee if he / she wished to update the CEO on matters discussed and any action agreed.

Independent Directors have found this a very effective way of getting to know the business better as well as getting exposure to members of the senior management team outside of formal board and committee meetings.

Chairing a Committee

A new board member should have an object of chairing one of the key committees at some stage and whilst they may not be invited to chair a committee immediately, they should explore with the Chairman the rotation policy of the board and which committee it might be most appropriate for them to chair in due course.

For example, if he is, an accountant and he has been asked to chair the audit committee it is important that he take stock of what the committee has done well and any areas for improvement.

The Independent Director will gain insights from discussions with the Chairman, the CEO, the finance director and the head of internal audit. In addition, an early meeting with the partner of the external audit firm should also bring new perspectives.

Not all boards operate in the same way, so it is important to get a clear understanding

from the Chairman and fellow non-executive directors how much reliance they will be placing on the audit committee in respect of financial propriety. Does its role also include overseeing risk management, for example.

The finance function within state owned organisations is as critical as in any other organisation. It is therefore important to spend time getting to know the finance team, as well as their historic experience of supporting the audit committee.

In addition, time spent with the head of internal audit to understand their work schedule and their relationship with the management team can be very valuable.

In the context of the audit committee, the lead partner from the external audit firm can be additional source of guidance and reassurance. It can be useful to seek guidance from the external partner as to what is “normal practice” in other equivalent organisations within the region in respect of areas such as the scope of activities undertaken by an internal audit function.

Overall, remember that if an Independent Director chairs a committee, the board as well as committee members will expect him to devote time and effort to ensure that the committee is run effectively and maximises the use of board time.

Time Commitment

Speaking of time, it is important to consider early on how much time an Independent

Director can and want to devote to the role. For example, the expectation of an Independent Director’s role can be that he would spend two days for each board meeting, which reflects that he is the Independent Chairman of the Audit Committee and a member of the Human Resources Committee in addition to being a Board member.

However, I volunteered early on to be a mentor to a member of the executive committee and also wanted to visit a plant around the time of each Board meeting.

As I was based in the UK, and thus flying in for each board meeting, I also arranged pre meetings with the Chairman, the CEO, the finance director and the head of internal audit. I would also arrange debrief meetings with some of these colleagues depending on what was on the board agenda.

Add on the occasional meeting with the regulator, the CEO of the parent company and other employees, and time quickly exceeds the two days set out in the role definition. In fact, I allocated five days around each board meeting to ensure there was sufficient time to meet everyone and to leave a buffer in case there was any unexpected follow up from the board meeting itself.

So it is important to think carefully about time commitment and plan accordingly.

Best Practice

One area where the Independent Director

can add value is by bringing Best Practice insights from their other roles that may be usefully adopted by the organisation.

However, a word of caution. It is important to be sensitive to what the organisation has already achieved and to ensure that any proposals are in the context of continuing development of the board rather than perceived criticism of what has happened in the past.

There are some areas where an experienced Independent Director can bring best practice which has some immediate impact. For example, the idea of a "Private session" or an "Independent Director only" session either before or after a board and committee meeting.

It should be recognised that there is benefit in the Independent Directors, with the Chairman, having the opportunity to have closed sessions, without management present, in order to explore areas of concern or greater focus.

Thus, a private session before a board meeting will normally provide the Chairman with some feedback on those areas that board colleagues would like to ensure that they spent sufficient time on in the forthcoming board meeting.

Equally, if a private session is undertaken at the end of the board meeting, this quite often reflects on how effective board members felt the meeting itself was and will therefore provide the Chairman with some immediate feedback.

It is also important to have a private session at every board meeting so they become part of the normal routine rather than only calling one when there is some serious issue to address.

However, private sessions have to be introduced with care. CEOs will often question the need for these and may regard them as potentially divisive. They only work if the Chairman agrees to provide the CEO with highlights arising from the private discussions and any proposed action.

Overall, an Independent Director on a state owned body could bring great value by considering carefully which aspects of best practice they think the current board might benefit from.

Use of Board Time

One of the challenges for many boards is to strike the right balance between the focus on strategic issues and delving into the details of operational matters.

An Independent Director can assist the Chairman (and fellow board members) by regularly testing whether the agenda items fall into the strategic or operational area and also considering the allocation of time between both of these areas.

It is easy for all of us to fall into a routine, or a way doing things, without necessarily stepping back to test whether this is still appropriate. A fresh pair of eyes can add great value, provided that their suggestions are made in a focused and sympathetic way.

Flexibility in Style

An Independent Director should also bring to the board flexibility in style. There are times when it is right to challenge the management team on their thinking in a robust, engaged and persistent way. There are other times when it is appropriate to recognise the unexpected challenges that have arisen in the course of executing a particular policy and being sympathetic to the plight of management.

Equally, there may be times when an Independent Director can assist management by considering which members of his network might be useful to introduce to the management team to help them develop their thinking in respect of current and future challenges. For example, I introduced the Chairman of a state owned enterprise to the Chairman of a listed European company in the same sector who was able to provide some commentary on the challenges of running a publicly listed company versus a private sector or state owned organisation.

It is important for the Independent Director to remember that he is part of a team – the Board of Directors. That team is there to support and challenge the executive team and, in doing so, there is as much emphasis on support as there is on challenge.

The role of an Independent Director on a state owned entity can be very stimulating and rewarding, provided that the individual brings an open mind and an enthusiastic approach.