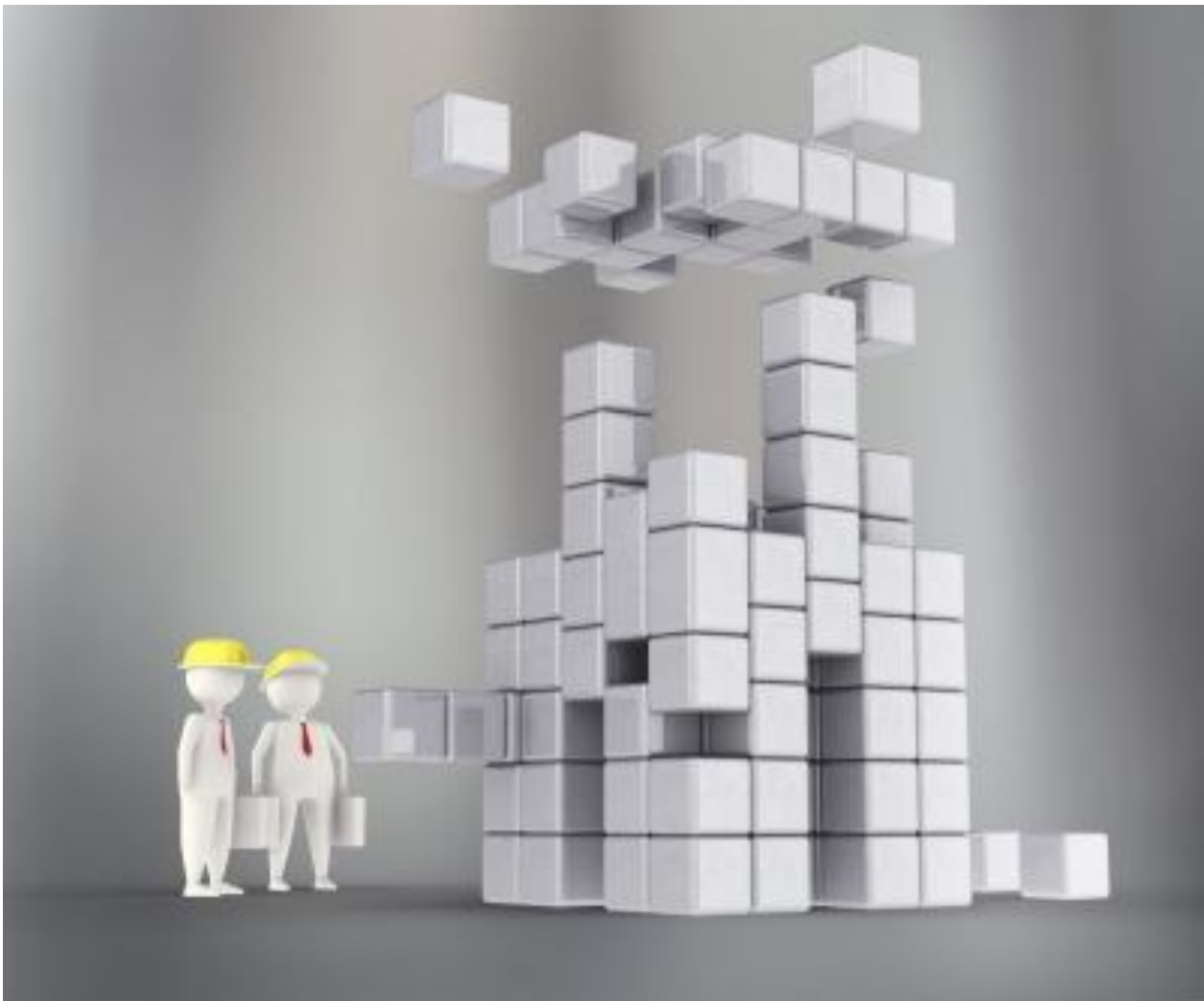


# Browne & Mohan

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*Board and CEO advisors*

**Planning for Growth, plan for Independent Board member too...**



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## **Background**

Just when everybody thought the demons of 2008 have been vanquished, comes the queasy feeling all is not well. Europe looks uncertain, costs of raw material and manpower are going up, and the revenue forecasts vacillate between far ends within a quarter. However, the times of uncertainty are also times of growth for companies that can plan their sustainability, de-risk their business and promulgate revenue options. Technological innovations like Cloud and social media are offering opportunities to reach out to larger markets at lower costs, and engage and influence the customer directly. Novel ideas can be pre-tested even before they are released to the market and avoid market failure. A key to growth oriented firms is to reach out to newer and unbiased sources of advice for strategic and tactical decisions.

### **Need for independent directors**

CEO and entrepreneurs in difficult times turn to independent advice that can help them see beyond day-to-day operations. They realise family members and other pliant directors of the board can at best help in window dressing (to meet legal requirements) and easily push through their own ideas. They also realize celebrity board members may bring more eye balls and have limited exposure to the company's business to offer practical solutions. They realize bereft of independent board members they risk myopic decision making, limited perspectives, lack of independent analysis and lateral thinking. They realize in crunch times like these, they need expert and experienced advice on markets, consumers, consumption trends, competitors and business opportunities.

There is no shortage of advice. From Blogs, business articles, and peer groups many snippets of information and advice flows. These advices have two limitations. They are often ad hoc and generic in nature, very useful to understand the issues from a higher plateau. Second their applicability to the company requires lots of rehashing, reshaping the data. Details of the underlying assumptions, changes in competitive dynamics & their impact and the associated business risks are where more inputs and assurances are found wanting. The data may also need triangulation, reforecast and validated. More importantly, the CEO are not just seeking an Oracle, they need an informed entity offering advice and insights over longer periods of engagement.

CEO and senior management would need the assurance the advice is relevant, applicable and manageable given their resources and capabilities at that time.

For a start-up or family owned enterprise side, the triggers for independent advice are many. In a family owned business, the management bandwidth may be limited. Most people, including key family members are often engrossed in operational decisions and may not have time, interest and capabilities. Another aspect is the national and organizational culture. In some societies, owing to the cultural hierarchy junior relatives may not voice their genuine dissidence or offer alternate options. In start-ups the themes are different. With rapid changes in market and competitive options, entrepreneurs would need advice on what to do and what not to do. Prioritizing the activities to scale up, help them to network with investors, professionals, media, and other resources at appropriate time, ensure the cohesiveness of the core team by motivating them and helping them focus on purpose and means are some of the reasons entrepreneurs seek out external advice. That is where independent non-executive directors step in.

What value do the independent board members bring to the organization?. Firstly, on the governance side, they help adherence to good practice, boardroom discipline, review process, stakeholder reporting and development of measurement systems. They also play the role of advisors bringing multiple perspectives and independent thinking from owner/CEO's. Independent directors also bring industry knowledge, and associated networks. Finally, they act as a platform and sounding boards for CEO and his team, often listening, ruminating and offering solutions.

The role of independent director changes with life-cycle of the company. In the formative stage, independent directors contribute by helping the entrepreneur bring the right human resources and build a professional set up. They offer real time advice on cash flow management, sales process, branding, investment priorities, etc. They help in creating financial and operational controls and guide the review process. They help in honing the service and product offerings, the market messages, resources, etc. Once the firm has established itself in the market, the independent directors help the continuously prod the company to discover new

that no longer offer highly differentiable and repetitive revenue options. They continuously prod the company to discover new opportunities, mobilize and leverage resources outside their boundaries (could be channel partners, key user groups, or other complementary players in the industry), innovations, pricing, etc. They bring to the company the knowledge of finance from outside, often help in positioning the firm with the right investors and participate in M&A process.

### ***Most valuable independent director***

Independent directors can be of multiple types. Some would be “active”, they involve in strategising at the board and guide implementation process without actually interfering with the CEO and the senior managers. Others could be “passive”, more limited to their advisory role in the board. Some would help in legal compliance, some share the review process of the CEO & his senior management, while some focus on the business model to follow and growth option. Some independent directors could bring a valued network (has higher intrinsic value for firms operating in demand/supply controlled environments). However, in our understanding the most valuable independent director brings the following.

- 1) Focus on profitability: constantly reminds the purpose and means of establishing the company, the share holders value created by the company, number of revenue streams, etc. They raise questions and offer constructive ideas to better the company’s revenue, how to do better than industry, help in arriving at cost comparison against the best in the industry, etc. They help in defining and honing the business mix. The components of business model you choose to play determine how fast you grow.

Take for example IT industry in India. You could offer three benefits to customers, viz., T&M services, product and project management services. Product and project services bring longer sales cycles, longer revenue realization times and non-annuity challenges. On the other hand, a T&M focus could mean the services could be enquired right when you place the resource. Independent directors also goad the board to assess the financial & non-financial risks that could affect profitability, and constantly stretch top line and bottom line focus.

- 2) Focus on De-risk: focus on broadening business mix, segmentation, market geographies, reduce dependence on some key people, skill sets that are likely to mature or new skill sets that would be in demand and finally, reputation of the firm. They help in identifying innovations (either radical or incremental), help build portfolio of products/services targeting different consumer groups, thus reducing dependence on a products or a market.
- 3) Focus on Sustainability: by constantly asking for extending the reach of their company into the economy, find newer opportunities and increase the richness of marketing engagement with its partner. They also continuously focus on sustaining creative friction within the company by approving creation of cross- functional groups, newer R&D teams, and novel commercialization models. They also focus on extending the management in the company, prodding for self-organization and responsibility at multiple levels, so that continuous streams of leaders emerge.
- 4) Focus on professionalism: by constantly encouraging multiple perspective at the board level, transparent and creative discussions about business, and act as a go between people to reduce ego frictions. They are not afraid in asking the right questions and asking them all in a fair and professional manner. They also do not mind digging deeper if some answers are not satisfactory or do not ring the right tone. They attempt to delineate the CEO and Chairman roles and hence bring more clarity in day-to-day operations and strategic views.

## **Conclusion**

In an era of open innovation and globalizations, entrepreneurs and companies realise the benefits of having independent board members. They are valued for bringing in wider perspective, broader industry contexts, high networks and deeper industry experiences. How can companies build a strong independent board?. First assess what strategic and tactical inputs are required to propel the company to next orbit. Bring on board members who are not afraid to offer constructive criticisms and suggestions to the board. Define continuous board review and monitoring process so that actions follow decisions and growth options are fully realized.

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