

ENHANCING DIRECTOR AND BOARD CONTRIBUTIONS

Recognising and Addressing Development Requirements

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Investigations of insolvencies can reveal deficiencies in the attention given to basics such as monitoring cash flows and critical trends or anticipating pressure points on the ability to meet financial commitments as they fall due. When crises occur, they may also uncover a general lack of understanding of the implications of unexpected events, new possibilities and complexity, linked to a widespread reluctance of directors and boards to seek clarification and help. Too often they go with the flow, follow the herd and are intellectually and ethically lazy.

In private, directors may grumble about inadequate board papers and processes and feel uncomfortable about harm being done to the environment and/or missed opportunities. Perhaps they are reassured by the presence of professionals and consultants advising executive colleagues and the existence of internal and external auditors. Problems may be rationalised or considered the fault of others. Too rarely do directors acknowledge their own deficiencies, question their own competence, and/or take active steps to raise their game.

Scoping and Anchoring Requirements

Some business models, sectors and strategies can be riskier than others. It may be possible to go a long way in business by using an appropriate formula or 'rule of thumb'. However, situations, circumstances and contexts can change. Whatever their backgrounds and prior experience, newly appointed directors often find themselves with responsibilities covering a wider range of areas than before. They may also need to be brought up to speed and equipped with

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enough understanding to monitor the activities of diverse specialists and professionals.

The nature and extent of an individual director's requirement for development can depend upon many factors. These could include a director's role and committee membership, the type, ownership or business model of a company, the sector it is in and its situation, context and/or stage of development. Directors are often appointed to fill a perceived competence, experience or knowledge gap on a board. With multiple and inter-related challenges, risks and threats affecting most areas of a business, even specialist professionals may struggle to cope.

Directors have distinct legal duties and responsibilities. When undertaking them they should exercise reasonable skill, care and competence and independent judgement. Someone who also has management and shareholder/ownership responsibilities should always remain aware of expectations of them as company directors. These include declaring interests and avoiding conflicts of interest. Directors should think as well as act. They should also think critically, question and challenge. They need to know what questions to ask and when to challenge.

Enhancing Director and Board Contributions

The purpose of development and other support should be to enhance the competences and contributions of individual directors and the collective value a board adds. Directors, both individually and collectively, should be prepared for the unexpected, possible scenarios and strategic decisions they may face. Those on the boards of businesses operating internationally might need awareness and some understanding of requirements relating to jurisdictions in which a company has significant operations or is planning to increase its footprint.

Board members should be aware of relevant corporate governance codes and liabilities of directors in laws and regulations. Directors of public or quoted companies whose shares can be traded need to be aware of listing requirements and applicable company law in areas such as insider trading. An induction or update should make all directors aware of their rights to information and the legal, financial and company secretarial support they can expect to receive from officers and executives of a company, and/or external counsel if required.

Increasingly, development for directors should include assurance of the veracity of financial information. Accounting assumptions can distort decision making.

They are often overlooked in the small print of accounts and reports. Changing them might have a significant impact on outcomes, as can factors such as discount rates when assessing projects, and accounting practices such as those for the allocation and/or recovery of overheads. Ideally, overheads should be kept as low as possible rather than allocated in ways that cloud understanding.

Assessing Materiality and Exploring Alternatives

Directors should be aware of their responsibilities relating to cyber security and other risks, and company accounts and reports, including processes, digital technologies and AI used to prepare, summarise and report accounting and other information. Questioning may be needed to identify what is material in relation to financial reporting requirements. Areas to probe could include vulnerabilities, dependencies, resilience, trends and readiness for existential threats and geopolitical, economic, environmental and technological challenges.

Many companies need to give more attention to opportunity costs and sustainability. Activities may seem profitable, but for how long and with what consequences, and might alternative uses of resources yield higher,



longer lasting and more responsible returns? Directors sometimes benefit from short and tailored sessions covering specific topics such as fixed and variable costs or the use of incremental costs and income in decision making. Trying to recover past and sunk costs may make a company's products uncompetitive.

Some directors may wish to explore the use of probability accounting or use a model to test how sensitive returns and other outcomes are to changing certain factors. Hands on learning opportunities can break down barriers, increase engagement and build confidence. While taking time to set up, they may raise the level of common understanding. As events unfold within a company, its market and the wider business context, options emerge, and/or board membership alters, support needs can change. Root causes of concerns may lie elsewhere.

Identifying Development Requirements

Board audits and reviews of performance can highlight individual and team development requirements relating to economic, financial, legal, reporting and regulatory developments, and anticipated or possible changes of prospects and/or strategy. Unexpected requirements for ad hoc review and the enhancement of skills relating to specific circumstances can also arise. A company might become the subject of a takeover bid or merger proposal. Directors could ask questions relating to the strategic implications of current, recent or possible events.

There are warning signs to look out for, including resignations and steps that other directors appear to be taking to protect their self-interests. Appearances can be very deceptive. Top line results can conceal underlying weaknesses. Many companies do not account for negative externalities, whose costs are borne by the environment and/or other entities. Cracks papered over may quickly fracture. Overvalued assets can become stranded following legal, market and/or regulatory changes. Contingent liabilities may turn out to be undervalued.

Many CEOs and executive teams persist with legacy strategies that might no longer be appropriate in the hope

that they may 'come good' or that a 'corner is turned'. Stress testing areas of cost to assess the effects of price increases or alternative provision can identify risks. The business model of a company or its supply or value chain might suggest areas of vulnerability. A rise in fuel costs following the shutting of the Strait of Hormuz resulted in the collapse of low-cost Spirit Airlines. Directors should endeavour to anticipate consequences.

Questioning and Challenging

While all directors should question and challenge, executive directors are sometimes reluctant to appear overly critical of their colleagues. Independent and non-executive directors may feel less inhibited. The courage and willingness to challenge may have been a factor in their selection. Timing can be critical. Directors should work for the best long-term interests of a company and its stakeholders. In practice, some executive colleagues may be working to maximise short-term enhancements to their bonuses, remuneration and share options.

Directors must be realistic, sceptical and alert to exaggeration, concealment and groupthink. They should keep an eye open for practices associated with them. All directors should remain vigilant and maintain a continuing watch on going concern and solvency requirements, as in competitive markets at a time of insecurity, uncertainty and volatility there may be little that can be taken for granted. The liabilities of directors can change significantly in many jurisdictions in the

event of insolvency. Individuals can find themselves very exposed.

Board chairs should be on the lookout for situations in which some directors remain quiet and areas in which they do not contribute. They may be reluctant to reveal a lack of understanding of financial matters. Competent and responsible CFOs take the trouble to ensure that directors understand accounting information and financial reports. They anticipate when and where board members may not comprehend them. Requirements can change. Perhaps a situation is complex and has not been experienced before. They may arrange supplementary support.



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Recognising and Addressing Development Requirements

Board and committee structures sometimes encourage certain directors to conceal their lack of understanding and switch off when complex matters are discussed. For example, they may feel that a financial issue has already been discussed at an audit committee meeting with internal and external auditors and leave it to others to raise any further questions. When individuals opt out of scrutiny and speaking up, the ability of a board to hold management to account could be weakened. Teamwork training may be required to build mutual support.

When others seem more knowledgeable, some directors may avoid asking basic questions, lest they appear foolish. Requesting clarification may be welcomed by others. Obfuscation, ambiguity or unnecessary complexity and detail in a board paper might be intentional to conceal, confuse or deter closer inspection. Questions sometimes flush out inadequate preparation or justification. Responses may sow doubt and weaken the case for proposed action. Holding back can result in the loss of a chance for a board to have a collective impact.

Development needs should be addressed. This may require more than a quick check in a review, a briefing during an induction programme following appointment to a board, or an occasional general updating overview. Competences and skills should be kept relevant and current in multiple and appropriate ways to enable all directors to exercise their legal duties and responsibilities. Better understanding of each other's role and contribution can build mutual respect between board and management and benefit a company and its stakeholders. ■

Prof. Colin Coulson-Thomas holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries.

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