



DCSL Corporate Services Limited

A SURVEY ON THE IMPACT OF INDEPENDENT NON-EXECUTIVE DIRECTORS ON BOARD EFFECTIVENESS AND CORPORATE PERFORMANCE



Insights on “Independent Director”,
how “independent” the Independent
Directors indeed are.

2021

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About this Survey

We undertook this survey to provide insights on realism of the concept of “Independent Director”, how “independent” the Independent Directors indeed are; determine the challenges to independence and the impact Independent Directors have on board effectiveness and corporate performance. We hope that the result of this research will be a useful reference and contribute to available literature on the subject.

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DCSL CORPORATE SERVICES LIMITED - Who We Are

Core Competencies in
Governance, Immigration, Training
& Company Secretarial Services

Operating from our Head Office in
Lagos, with a branch office in Abuja

Vision

To be the preferred
corporate services
provider in Nigeria

Mission

The pursuit of
excellence in service
delivery

Core Values

- + Integrity
- + Professionalism
- + Teamwork
- + Accountability
- + Respect for self and other

What we do

- + Board Evaluation and Corporate Governance Audit
- + External Quality Assessment of the Internal Audit Function
- + Setting up and Hosting Whistleblowing Infrastructure
- + Codification of Charters, Policies and Terms of Reference
- + Independent Director Recruitment
- + Immigration Advisory & Support
- + DCSL Academy
- + Business Advisory & Regulatory Compliance
- + Company Secretarial
- + Executive Talent Selection
- + HR Outsourcing

INTRODUCTION

Corporate Governance continues to be is at the heart of business activities as economic growth and transformation depend largely on the development of a competitive corporate sector.

The Board of Directors plays a significant role in entrenching corporate governance and Directors are empowered by Shareholders to provided leadership to Management to ensure that all activities align with the best interests of the company. The requirement for a Non-Executive Director who is independent of the Company is yet another initiative to stem the tide of corporate scandals. Independent Directors are expected to bring objectivity and balanced perspectives as they are not connected to the company or its management. The presence of independent representatives on the Board who can robustly query management proposals is expected to significantly protect the interests of all stakeholders.

The Nigerian Code of Corporate Governance 2018 and the Sectoral Codes (and Guidelines) require that companies appoint Independent Non-Executive Directors (INED) and provide guidance on qualification to the role.

SURVEY METHODOLOGY

We sought the opinion of respondents on the following:

- + How realistic is the concept of “Independent Directors”
- + How “independent” are Independent Directors
- + What are the challenges to their independence
- + Do they contribute to Board effectiveness?
- + What impact do they have on corporate performance?

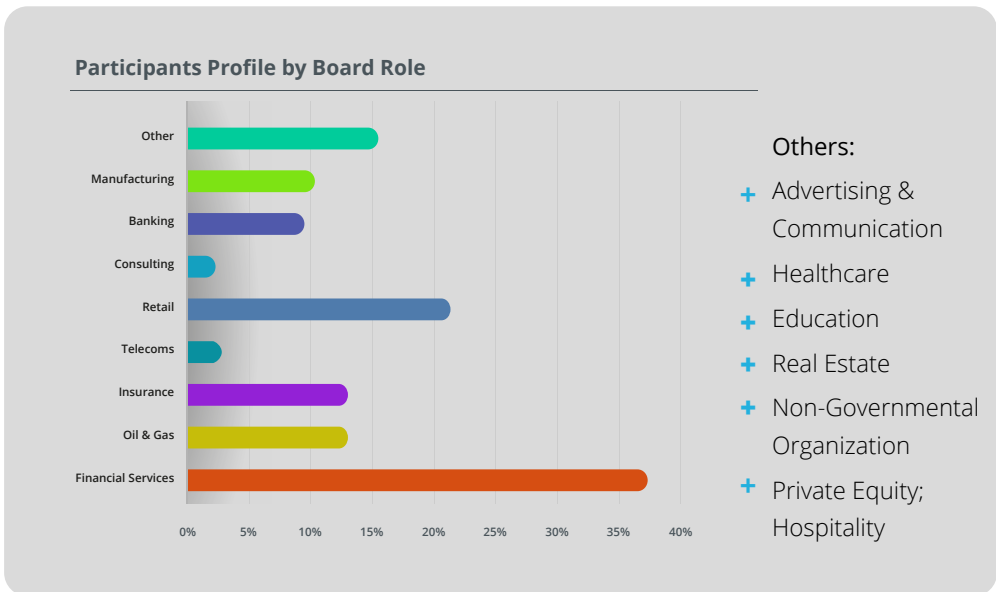
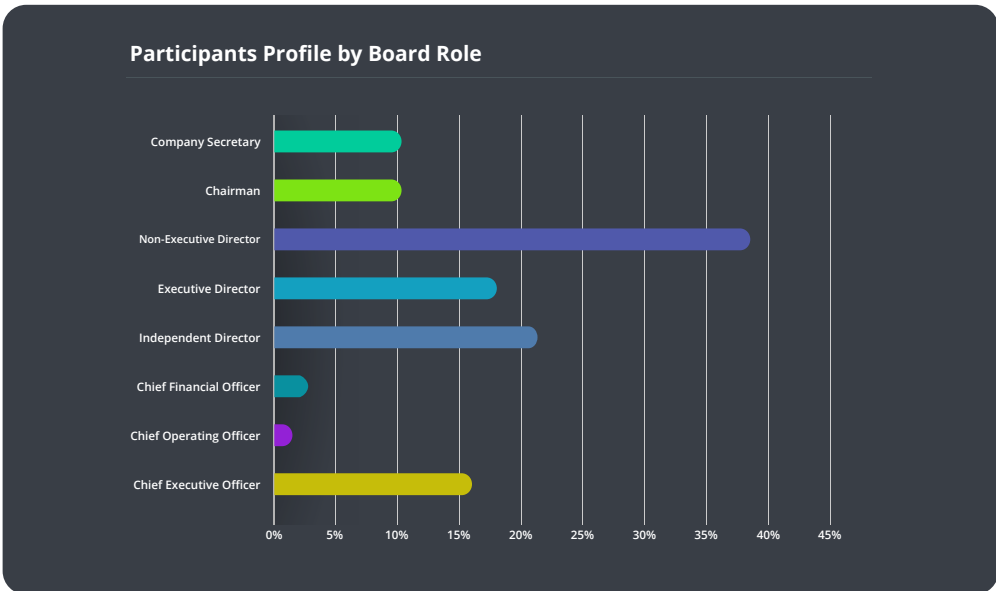
We deployed a web-based survey which included Multiple choice, and open-ended questions.

SURVEY PARTICIPANTS AND SAMPLING METHODS

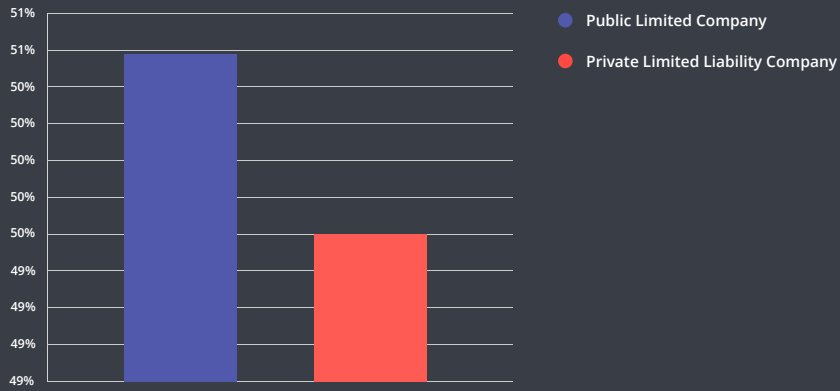
The research used primary data from 88 respondents who are Independent Directors, Non-Executive Directors, Executive Directors, CEOs and Company Secretaries.

The convenience sampling method was used to derive the survey sample.

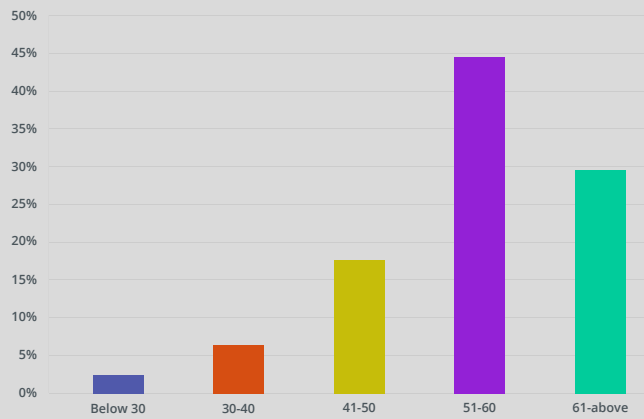
KEY FINDINGS



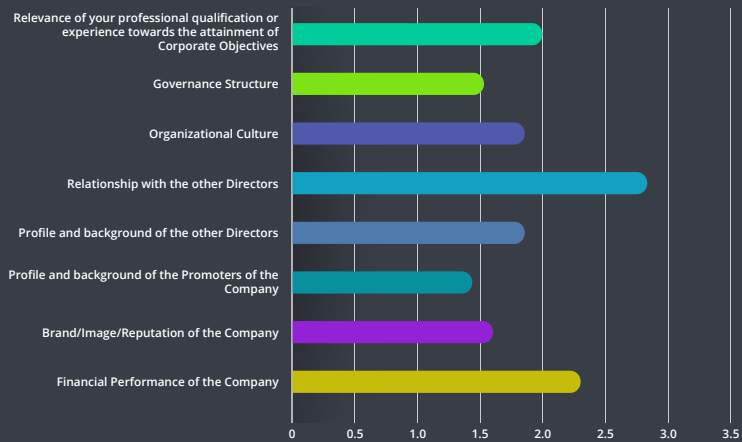
Participants by Nature of Company



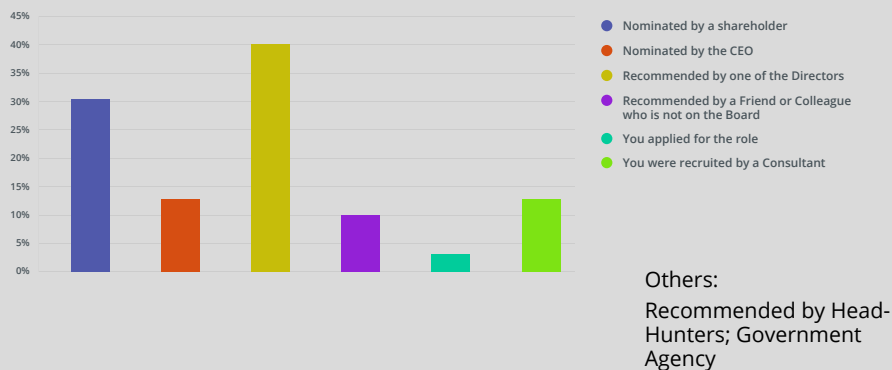
Participants Profile by Age-Group



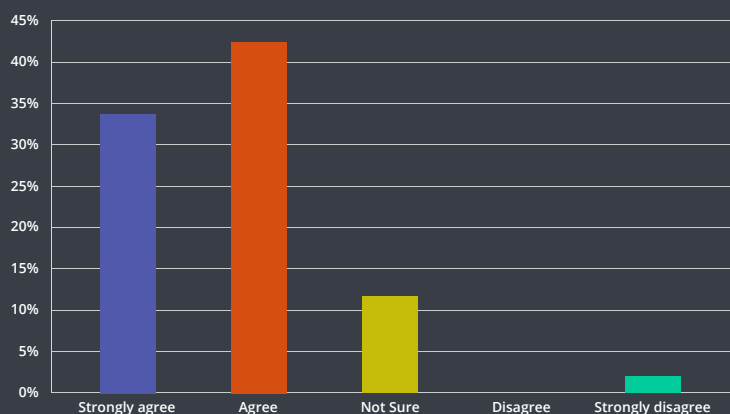
What factors did/would you consider before you accept/accepted to serve on a Board as an Independent Director?



How did you get appointed as an Independent Director?



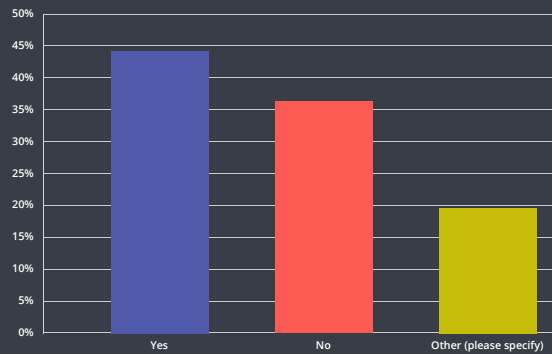
Does the Independent Director provide a sounding board for the Chairman?



Comments:

- + The Chairman consciously seeks the ID's opinion and input on issues before the Board
- + Somewhat!
- + An independent Director should be independent and fair minded.
- + As long as the Chairman is a strategic leader, sees the big picture, is focused and fair to all, has good skills & expertise towards achievement of Board and Organizations objectives, the issue of sounding board should not arise.
- + To the extent that the Chairman consults with me outside of regular meetings.
- + This role is critical in giving the Chairman a neutral or different view from Management and core shareholder. In our case, the Chairman is also an Independent Director making two on the Board.

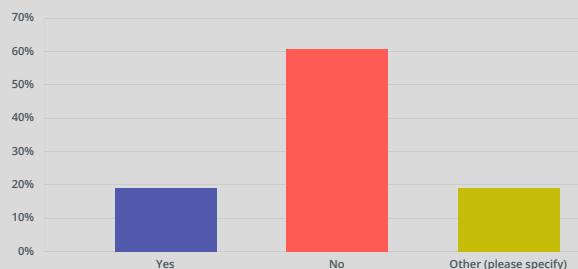
Do the Directors have access to a mechanism via the Independent Director for handling concerns which the normal channels of Chairman, Chief Executive Officer or Executive Director(s) have failed to resolve (or for which such traditional contact is inappropriate)



Comments:

- + We do not have one yet
- + No such formal defined mechanism exists. However, the relationship at the Board level is such that lends itself to easy and fluid communication.
- + Not often established but it happens
- + Our Board is relatively small and the described situation is largely inapplicable, hence a formal structure as described neither exists, nor is one necessary. All Directors have ready access to the Chairman, and both independents have easy access to the Holdco and controlling shareholders, if ever necessary!
- + Any director can get in touch with another director. There is no formal mechanism in place.
- + This is not in place at the moment
- + Such a scenario has not occurred
- + We haven't had to deal with such a situation.

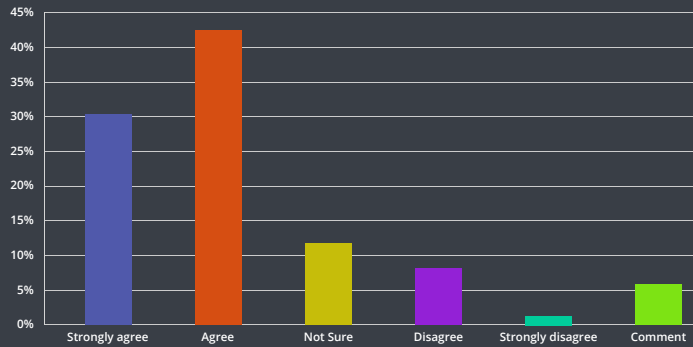
Do Non-Executive Directors, led by the Independent Director meet without the Chairman at least once annually to appraise the Chairman's performance?



Comments:

- + This is desirable but I am not sure it holds
- + We are in the process of appointing an INED
- + The Non-Executive Directors do not meet formally as described. However, the Board goes through a formal outsourced annual Board Evaluation exercise, where each Director is obliged to make peer reviews.
- + No but feedback on the Chairman's performance is done through the Board Evaluation exercise
- + Individual appraisal of the Chairman is done.
- + The Independent Director is a key part of the Governance Committee where he has a big say. Also, all directors appraise the Chairman's performance annually.
- + This done by the Nominations, Governance and Remuneration Committee comprised of Non-Executive members
- + We assess through the appraisal mechanism provided by our consultants.

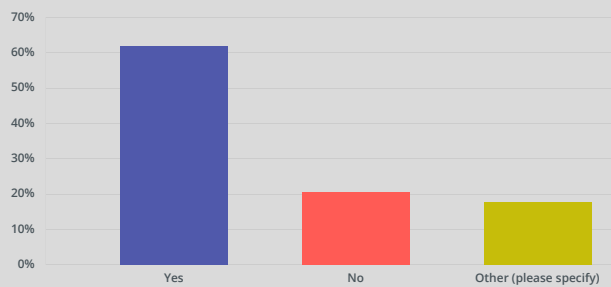
The ratio of Executive and Non-Executive Directors and in particular Independent Non- Executive Directors is such that no individual or small group of individuals can dominate the Board's decision making.



Comments:

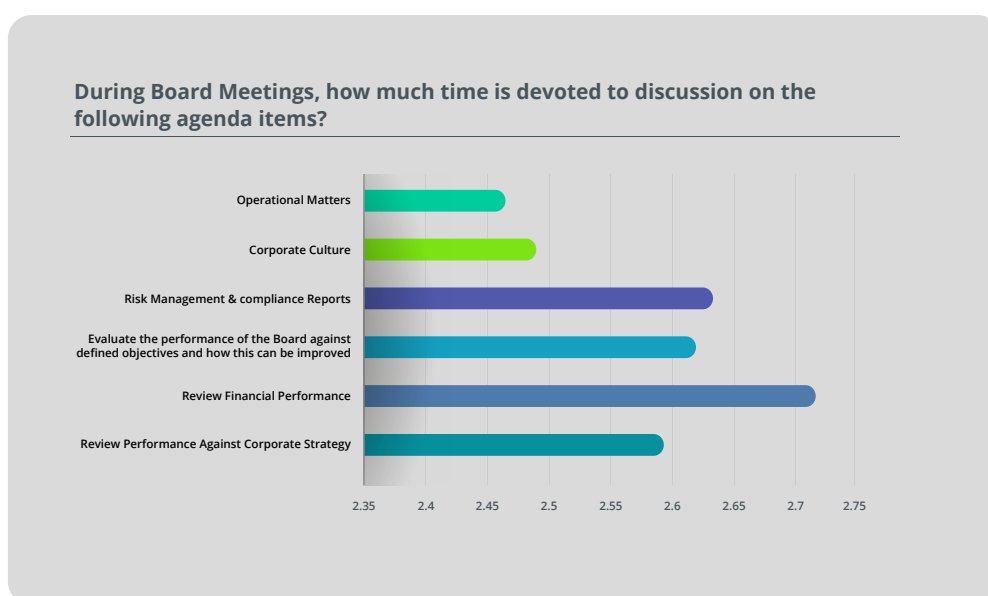
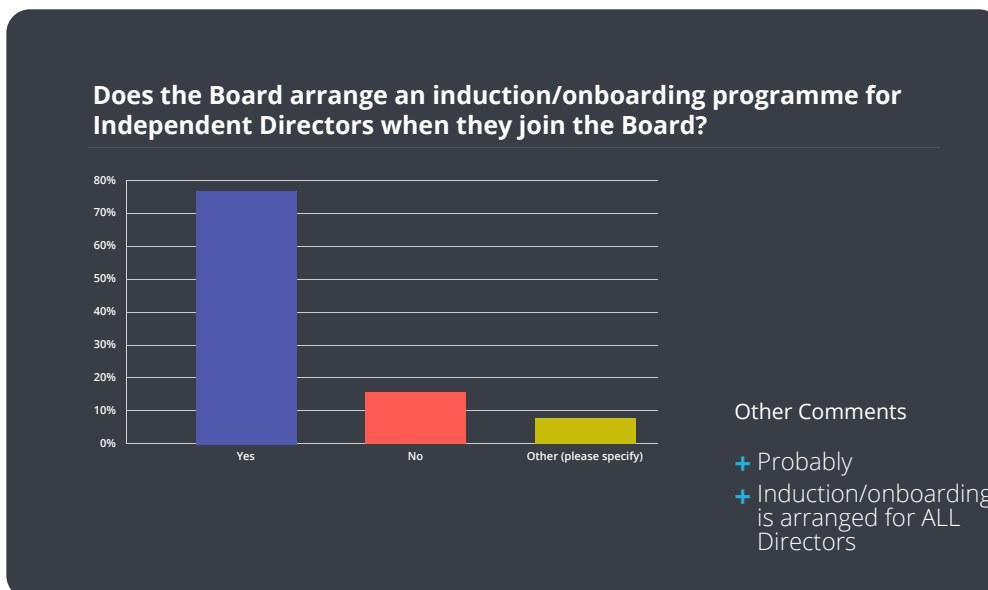
- + CEOs can be very strong, and this may be a major factor
- + The Board is still being fully reconstituted, and we expect desirable balance will be attained by the middle of next year if the current efforts yield the desired results.
- + The Board is presently made up of the MD/CEO as the only Executive on the Board; one ID; & 5 other NEDs representing the interest of the shareholders. Decisions taken so far have been in the best interest of the company.

Do Independent Directors receive the same remuneration as other NonExecutive Directors?



Other Comments

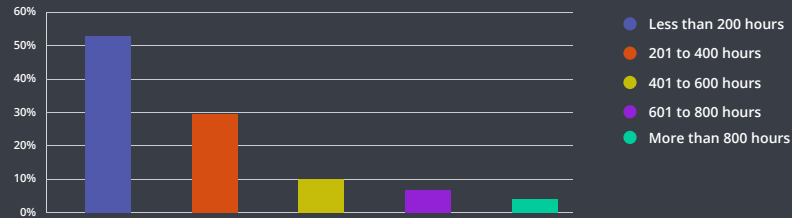
- + No idea. Remuneration is personal.
- + Only Directors Fees and Sitting Allowance



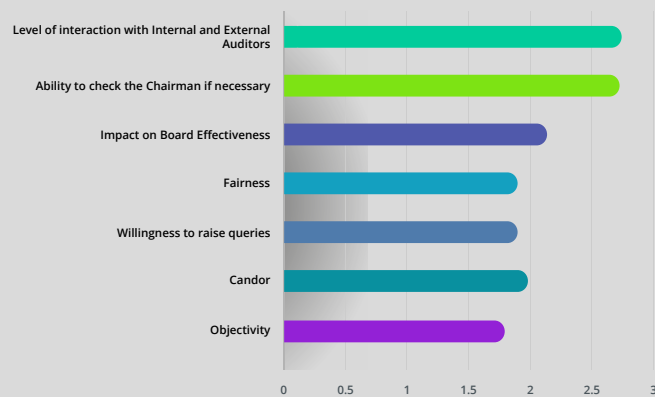
Other Comments

- + More time can be devoted to Corporate Culture
- + Board performance evaluation usually comes up at the meeting where the Consultant presents the Evaluation Report.
- + Important matters are always discussed at length. There are Governance, Risk and Audit Committees which report to the Board.
- + Administrative Committee Issues, Litigation, Other Committees issues (More than 30 Minutes)
- + The Board is independently evaluated annually, and directors devote sufficient time to review the report of the evaluation.
- + These items should be seen in context- the Committees would have hashed out issues for several hours. The reports from the Committees are then presented and discussed at the Board meeting. Directors are encouraged to sit through all Committee meetings whether or not they are members.

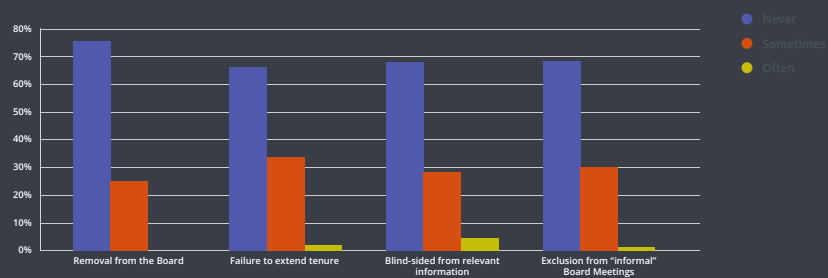
On an average, how many working hours are devoted annually to the affairs of the company by the Independent Director?



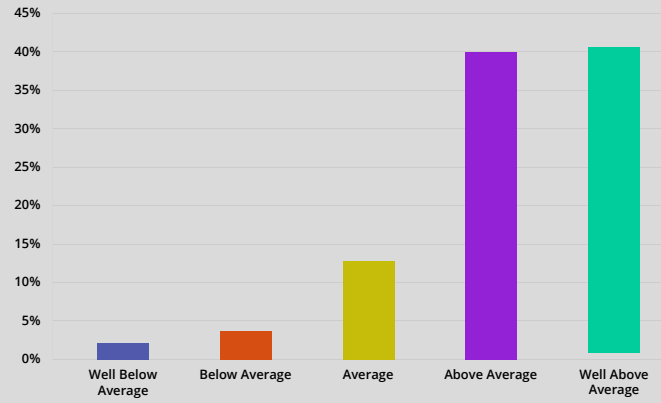
Rate the following traits/activities of the Independent Director on the Board.



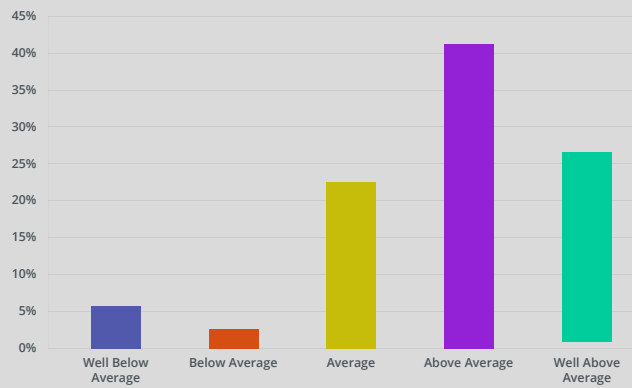
To what extent would you say the Independent Director is exposed to the following if he/she does not agree with the "popular" view on the Board?



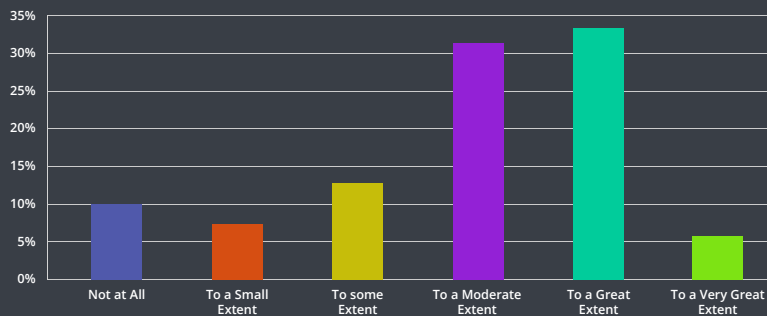
Please rate the overall impact of having an Independent Director/s on Board Effectiveness



Please rate the overall impact of having an Independent Director/s on the Board on Corporate Performance.



To what extent would you say the Board defers to the views of the Independent Director/s



What Value does an Independent Director bring to the Board?

- + Much needed for Corporate Governance.
- + The Independent Director can be very useful if he/ she has relevant experience.
- + An independent director brings objectivity to the Board.
- + A new trend worthy of exploring for a company that wishes to grow sincerely.
- + Critical for governance and to enhance and deepen the diversity of thought on corporate performance.
- + It helps the Board to know and appreciate the goings-on elsewhere towards enhancing the performance of the Company.
- + Provided Independent Directors are strictly independent, and their number supersedes that of the Non-Executive Director. In fact, it is preferable to have them Chair the Board of Directors for effective performance of the Board.
- + An Independent Director operating as he/she ought to is an invaluable resource to the board and the organization!.
- + Independent Directors can bring fresh and objective points of view to Board deliberations. They can also help to enhance perception of a company's adherence to sound ethical business practices and best class corporate governance regime in the management of its affairs and other undertakings.
- + The role is essential for proper corporate governance.
- + The role of an independent director is critical to achieving good corporate governance, acts as a good check and balance to the powers of the Board and is one of the key pillars in testing for the effectiveness of the Board and assuring the long term sustainability of the Company.
- + The independent director is able to bring an objective, independent and fresh perspective to important matters for decision by the Board. They are an important line of defence to the "agency problem" and can help "steer" the Board to make decisions that are in the overall best interest of the Company and not of any one stakeholder group.
- + An independent director is responsible for good governance on the board and may be considered as the watch dog of the Company. The ID helps with the improvement of governance standards and corporate credibility.
- + It is an essential component of the Board because this person can give an unbiased, unemotional, and candid view with the aim of moving the company forward, caring less about any individual's personal view or interest.
- + The concept is very good for corporate governance and corporate performance if they can act and behave truly independent.
- + The impact of independent Director on the Board is positive and ensures going concern.
- + The concept of Independent Director is to provide balance and independent view to the work of the Board only to the extent that such Directors are independent. I believe and have seen that Independent Directors do make a difference.
- + Critical for Boards of companies with diversified shareholding.

- + Independent Directors bring objectivity, fresh ideas, needed skills and experience.
- + I believe it's in gradual evolution and its effectiveness and impact would vary from organisation to organisation, depending on the sincerity of the Board. I am of the view, from personal experience that it is gaining traction and going beyond just fulfilling regulatory requirements. The profile of the Independent Director is slowly but surely rising and there is frequent deferring to the role in Board discussions and decisions.
- + Independent Directors make quality contribution to corporate governance of a Company. Their impact is predicated to their background, discipline of study and pedigree.
- + It is to a Company's advantage to have as many independent directors on the board. You benefit from the unbiased opinion they bring to the board which, in most times, is in the best interest of the Company.
- + It's a good concept, which allows an independent discerning voice on the board. The concept facilitates unaffiliated and frank opinion devoid of sentiments or parochial leanings. Its also affords true and professional advice to the board/chairman. Such (independent director) person must live above board and alive to expectations of the role.

What personal characteristics are critical for an Independent Director to maintain Independence?

- + Independent Directors represent the soul of the shareholders who ordinarily have no say in the management of the affairs of the company. As the name connotes, they must not only be independent but must be seen as such and their conduct must reflect this
- + Independent Director is an essential requirement, but it requires strong a character who cannot be easily influenced but willing to be flexible enough to listen to superior arguments
- + The choice of an ID should be influenced by the knowledge and experience of the candidate coupled with the assurance of autonomy with loyalty to the company being paramount rather than to any other interest group.
- + Gravitas, experience, competence, objectivity and effectiveness of the ID.
- + A Director of a Board that does not have a material relationship with the company. Helps the company to improve corporate credibility and governance standard. Helps in attaining growth for the company. Not employed by the Company and No financial interest in the Company.
- + Independent directors need to understand their role and have the right strength and qualities of integrity, firmness, diplomacy, and resoluteness in the face of opposition. They should also be great communicators and be able to take a stand without necessarily being divisive. From my experience an effective Independent Director is one who is mature, inclusive, focused, and personable.
- + Getting someone on Board who understands the relevant sector/industry is very important.
- + Knowledge of the industry should be a major consideration in appointing independent directors.

- + Should be very experienced in the company's line of business and conversant with the current operating environment
- + The independent director must be of strong character while having good human relations capabilities and be sound intellectually to be discerning when there is something untoward going on.
- + Apart from the corporate culture of the organization, the effectiveness of Independent Directors is largely dependent on the "breadth and depth" of expertise, knowledge and experience the Independent Directors bring to the Board.

Does the manner of appointment matter?

- + An independent director should ideally not be appointed by the shareholders because that will undermine their objectivity.
- + The concept is good, but its effectiveness will depend on the quality of those who nominate the independent directors, quality of other directors, and governance structure of the company. Some will appoint independent directors in name just to appear like they are heeding to corporate governance precepts. The top corporate names will lead and hopefully others will follow soon.
- + An Independent Director should be an indispensable part of any board. However, I feel the appointment process, and function/role, can be strengthened by minimizing the practice of shareholders nominating Independent Directors.
- + If the rules of appointment of an independent director is strictly adhered to, such a director should not be appointed by any shareholder, in order for the director to be truly independent in the performance of it's duties on the board.
- + Independent Directors should as much as possible be 'independent'. Independence cannot be sustained if appointment is from any member of the Board hence it is my considered view that an independent body, e.g regulator, consultant, etc be engaged to recommend candidates for the role. The Independent Director should be the second 'Company Secretary' (albeit higher) able to advise on proper governance practices without allegiance to any bloc on the Board. He should also be able to speak freely and if need be check the Chairman's excesses.

What specific role should INEDs play on the Board?

- + Because the Independent Director is on the Board of Directors not from an equity basis, he/she is able to bring balance to conversations to ensure that balance is brought to positions canvassed by majority equity holders to protect all shareholders.
- + The Independent Director (ID) is meant to assist the Company in improving Corporate Credibility and Governance standards. An effective ID can bring fresh insights, balance, and objectivity to proceedings on the Board.
- + I think for effectiveness, Independent Directors should chair the Finance, Audit & Risk, and Nominations, Governance and Remuneration committees

Does the Board have a role to play in safeguarding independence?

- + A fantastic concept. Ability of the INED to function effectively largely dependent on the culture of the Board and the willingness of Directors to listen to a neutral voice.
- + Independent Directors always bring a balance view to deliberations at meetings, more so deliberations that have a direct impact on their investments. My Chairman always requests the views of the Independent Director before a final decision is taken on almost any issue.
- + There must be mechanisms to assure the dedication and commitment of the ID.
- + In my experience, an independent director(s) is a necessity but his/her effectiveness or otherwise is ultimately subject to the company's Corporate Governance practices.

Any drawbacks?

- + It's brings an unbiased assessment of issues at the initial stage. In my view, independence is lost over time as the independent director gets sucked into the affairs of the company, owning and feeling responsible for its activities and wellbeing. Thus, independence is to the extent of not being equity participant on the short run. Natural affiliation and tendencies make it difficult for independence to be maintained over a long period of time. Hence, the need to reduce the tenor of such Director will be a recommendation I will favour.
- + Independent Directors are important but they are only as effective as the board on which they sit allow them to be
- + The supposed impact of the independent director on the Board is more academic than reality.
- + Independent Directors on the Board check not only Management excesses, but are key to ensuring a balance in the influence of shareholder nominees on the Board. They ensure that the institution is run appropriately, but where they don't have company specific competences, might not really add much to the attainment of financial objectives. For instance, how much would an independent director without financial services experience or exposure add as an INED on the Board of a bank ?In my opinion, such a person would aid a virile governance structure, but might not directly add to the bottom line.

 08090381861
 badeyemi@dcsf.com.ng
ialagbe@dcsf.com.ng
 dcsf.com.ng

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