

Do your homework before joining a board

By **THEMIN SUWARDY**

IN MAY this year, the Monetary Authority of Singapore (MAS) issued the revised corporate governance standards. All companies must now ensure that independent directors make up at least one-third of the board. And in some cases – for example, when the chairman of the board is not an independent director – the code expects at least half of the board to be independent. Independent directors with long tenure of nine years or more will face a “particularly rigorous review” before they can maintain their independent label.

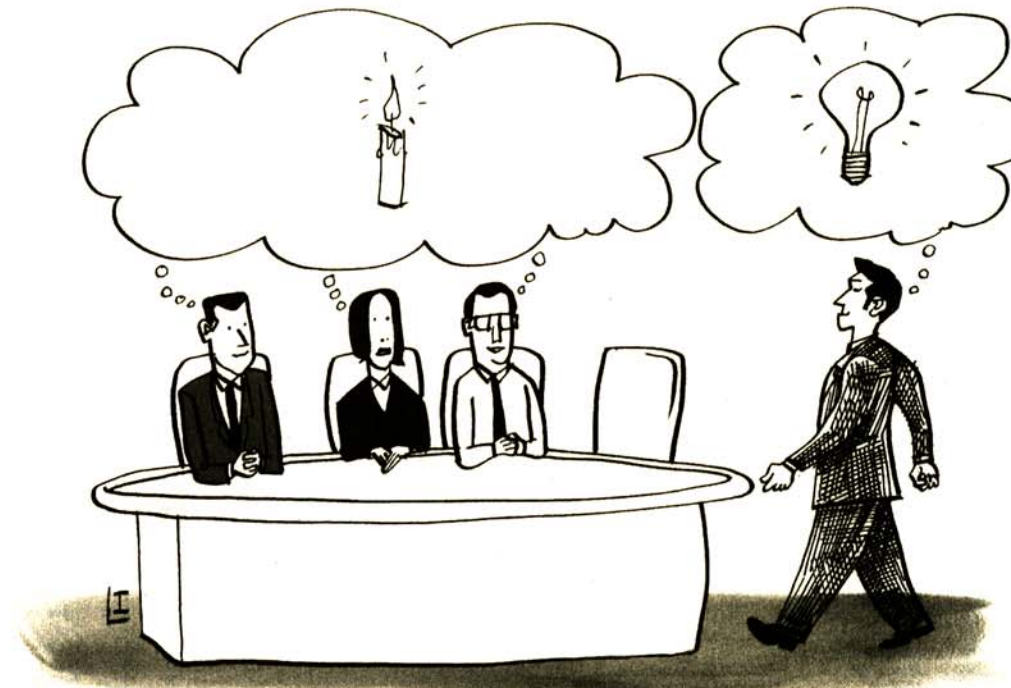
The existing pool of independent directors may also face further scrutiny if they hold (too many) multiple directorships. Thus, if you have the prerequisite qualification, expertise and some say, connection, you may be asked by a company to sit on their board as an independent director.

It is flattering to be asked to become a director but don't get tempted for the wrong reasons. All directorships carry huge liabilities and responsibilities. If your first reaction is “How much will I get paid for this?”, then you are probably weighing the wrong end of the scale.

Making a genuine contribution and impact is probably the best form of satisfaction from being a director, far exceeding what the company can offer you as director remuneration. Unless you have a real passion for the company and share common values with the board, it is probably better to let someone else do the job.

If, however, you wish to pursue the opportunity, it is wise to do some background homework before making your decision. Here are a few things that you should consider before you decide on joining a board.

Why me? A good board has a well thought out succession plan and clear expectations of the type of contribution that it is seeking in a new director. Make sure that the board's expectations of you –



and in particular, the expertise you bring and time that you can commit – match what you believe you can contribute.

If you are replacing someone, check if you can speak to the departing director. Critically ask yourself: “Do I have the expertise expected of this role on the board?” Ask if you will be expected to take on additional board sub-committee work. Make sure that you understand the time commitment and other demands that may be placed on you, above your existing work commitments. A smooth-sailing company may require less time and attention than a company in the spotlight for the wrong reasons. How prepared are you to spend time with the company when it needs you most?

Who else is on the board? You should meet face-to-face with at least the chairman, CEO and two or three other directors to ensure that you share common attitudes and approaches to the company, its vision and risk.

It also gives you an idea of the competency and knowledge of the people whom you will be working with and depending on. Carefully assess the current board and the company, and your own skills and experience, to determine whether there is good potential for you to add value.

Make sure that the company has a board charter that clearly outlines the role of the board members and its governance practices. You may be an independent director but your effectiveness will depend greatly on the quality of the management and the information that they provide to the board.

What is the status of the company? Assuming that you are being invited to sit on a board for your financial/accounting/business skills, you may not necessarily be familiar with the industry and/or company that you are getting involved with, so make time to find out what they do.

Visit their website and search the Internet for background information about the company. If the company is listed, visit the Singapore Exchange's listed companies section and read the company's announcements in the last year.

Study the company's financial statements. You need to know up front whether you are facing a potential solvency problem or if there are any accounting issues with the auditors.

Many companies have regular litigation proceedings in the normal course of business but you need to know if there are any major or unusual actions pending.

Based on the nature of the business, you should consider what the major risks for the organisation are and the extent to which the board is effectively monitoring those risks.

Once you have done your initial homework, you should be in a better position to decide if serving as an independent director with the company is really something that you want to do.

The writer is associate professor of accounting practice, associate dean, SMU School of Accountancy, and deputy president – Singapore, CPA Australia. This article is based on CPA Australia's publication '10 Questions to Ask Before Joining a Board'