

## Importance of Independent Directors

By Leslie Dashew

Having truly independent directors serve on boards of private or public companies has always been considered a “best practice.” In the recent months of governance scandals, the importance of independence has become even more evident. In this article, we will explore what it means to be “independent” and how it benefits family businesses.

**Independence, when it comes to boards,** allows a director to be objective and evaluate the performance and well being of the company without any conflict of interest or the undue influence of interested parties.

This includes:

### **Independence from Management**

For instance, directors are not totally dependent on the company President or CEO for information. They “keep their ears to the ground” to get outside information and perspective.

### **Compensation**

Board members do not accept compensation for anything other than board service (i.e. no consulting, professional services or other business dealings with the company as supplier, financiers or customer.) This prevents conflict of interest financially or biases based on those roles.

### **Conflict of Interest**

Board members are not affiliated with organizations or activities that would create a conflict of interest with the company on whose board he/she serves. On an ad hoc issue, (e.g. if board is considering a partnership or alliance with an organization affiliated with a board member), a director can excuse himself from if he feels there is a conflict.

**Independence also comes from the character and values of the director.** A director who is truly independent does so because of:

- Commitment to serve shareholders with due diligence and integrity
- Good judgment and common sense
- Sufficient self-esteem and confidence to stand up for an independent point of view.

**Further, independence in the board as a whole can come from diversity** of perspective (as opposed to having many board members come from the same “club” or background).

**A board with a majority of independent directors, can bring expertise and objectivity which**

- Assures owners that the company is being run legally, ethically, effectively and in the best interest of its owners
- And that they have “representatives” who are objective and have no “ax to grind “
- Who will look at issues with no vested interest or “hidden agendas.”

Having a majority of independent directors (or at least a critical mass) allows outside directors to feel they have support in raising contrary points of view. Otherwise it may be difficult for a single outside director to raise an issue that may be sensitive to the family or founder.

**For a family business, independence is even more important.** The independent director can help with issues where the family tends to lack objectivity and independence such as:

- Hiring, firing, promoting, and compensating family members as well as determining succession plans;
- Bringing expertise and perspective to a business which is run on tradition and sentimental loyalty (“this is the way dad did it”) rather than by current best business practices;
- Acting as a neutral bridge between family owners and non-family managers.

**Attracting, fully utilizing and retaining independent directors requires that the board be operated in a professional fashion.** There are many talented, mature business people who enjoy serving on boards as a way to “give back,” and to have a positive impact on another business. However, if their opinions are not given thoughtful consideration, if their time is wasted, or if the business is not run in a fashion that reflects the values of the outside board member, it is unlikely that effective director will continue to serve.

A critical factor in attracting and retaining key outside directors is running the board meetings in a professional manner. This includes having agendas and board books sent out several weeks in advance to give busy people a time to prepare, running the meetings efficiently and effectively without regression into family squabbles around the board table and keeping the meetings focused on critical business (or family business) issues rather than administrivia.

In conclusion, having a board that has a **majority** of independent members, that is directors who are neither members of the family, employees of the company, advisors, customers or suppliers, will add great value to a business and the family who owns it.