

Experts view on structuring a dynamic Board of Directors



*The-Panelists-from-left-to-right-Challenger,Chandra-Jayaratne,Dr.Rohan-Fernando,-
Messrs.-Kumar-Jayasuriya,-Ranjit-Gunasekera,-Husein-Eusufally-&-Pravir-
Samarasinghe*

The Sri Lanka Institute of Directors (SLID) recently initiated a training programme on Corporate Stewardship & Boardroom Governance. The six module series targets existing as well as aspiring directors of companies and equivalents. The first of these modules – “Structuring of a Dynamic Board of Directors” was held on 21 January at the Cinnamon Grand Colombo.

The interactive session was well attended with panelists being drawn from high profile Sri Lankan board rooms.



*Panelists-from-the-left;-Messrs.Ranjit-Gunasekera,--Husein-Esufally-&-Pravir-
Samarasinghe*

Chandra Jayaratne the former chairman of Ceylon Chamber of Commerce acted as the “catalyst panelist” to a group that included Kumar Jayasuriya, Chairman, Finlays Group of Companies; Dr. Rohan Fernando, Managing Director, Elpitiya Plantations and Aitken Spence PLC; Ranjit Gunasekera, Non- Executive Director of NDB bank and John Keells City Hotels; Husein Esufally, CEO, Hemas Holdings PLC and Pravir Samarasinghe, Chief Operating Officer, Richard Peiris & Co. Ltd.



SLID-President-Mr.-Mahen-Dayananda-adressing-the-gathering

The Panelists discussed various aspects directors should consider to infuse dynamism into their respective boards.

Dr. Rohan Fernando spoke of intrinsic qualities required in a Director such as the ability to accept criticism from his/her colleagues and be humble and open to ideas. He also pointed out that directors needed to concentrate on maintaining their independence at all times.

On the issue of non-executive independent directors (a necessity under the new Companies Act) “I think the most important thing is that a company should select not only people for their qualifications, but also for their independence...fearless independence”

Fernando felt that the role of the independent director was vital for the vibrancy of the board. He also felt that a chairman should be modest enough to accept disapproval from an independent director who might see issues from a different perspective. He further stated that in certain situations particularly related to executive directors, boards tend to analyse their own performance and since colleagues do not wish to be critical of each other sometimes important issues were not highlighted. “in organizations you tend to develop a ‘you scratch my back; I’ll scratch your back syndrome” says Fernando. The solution according to him is for the chairman or MD to be the driving force in preventing these attitudes building up.

Kumar Jayasuriya talked about the human behavioral aspects of a board which he considered as important as the structure itself. To be effective, he deemed boards need to operate with a culture of openness and engage in active discussion. Importantly the effective running of the organization relies on boards being presented timely, accurate information relevant to the decision they are set to make. From a procedural point of view he believed that boards had a tremendous responsibility to engage in risk management activities.

Jayasuriya believes it's important to get the right people on board and to create the right cultural environment in which they can function. Boards have to be proactive rather than reactive in their decision making to create sustainable growth. On an individual level he mentioned "just as his or her position is enhanced by serving on the board they should ensure that they also enhance the organisation's position with their efforts".

"The chairman is the heartbeat of the board" said Ranjit Gunasekera. "The interface between the chairman and CEO has to be a good one, they've got to understand and respect each other. He also noted that "a key foundation is the case of independence; we have all these definitions for independence; what we are really looking for are people with an independent mindset." Gunasekera stressed that Director obligations should not be viewed as a burden or hindrance but as something that will help drive the company towards sustainable profits.

"They say the trick is to get the right people on the bus, the wrong people off the bus and the right people in the right seats. In Sri Lanka there is an unwritten understanding that once the person is on the board... he is there till retirement. To develop the best composition for the boards that culture needs to change." Gunasekera also believes that the executive directors should be the ones driving boards to look forward. "One criticism of traditional boards is ; instead of looking in the windscreen they are looking in the rearview mirror all the time." He points out that executive directors need to develop the stature and the clout to challenge the CEO or Independent non executive directors at board meetings if necessary. "This is why you need to have a balance of the right people"

Husein Esufally stated that "The main function of the board is to help build sustainable shareholder value. There are businesses that may need help with strategy, there may be businesses that need to be controlled, others need to be coached."

He pointed out that the board composition needs to reflect where the business needs to go. Boards should not be burdened too much with procedural issues; their main focus should be the success of the business, Esufally felt that Asian cultures had a dislike for confrontations; thus most board members shield away from asking questions and that was a deterrent to a functioning of a good board.

"Many boards here are dominated by one or two shareholders and sometimes the (non-executive) directors are intimidated and ultimately that does a disservice" said Esufally.

Elaborating on the Hemas board, Esufally stated that new directors are given at least a full day worth of orientation – this is where he or she visits manufacturing plants, meets customers and gets a first hand view of how the company operates. He believes that directors’ decision making will be flawed if they don’t really understand all aspects of the business.

The board members also take time out once a year for planning sessions, where the directors meet the management face to face and get a chance to contribute to overall company strategy.

“I think for a board to be effective composition is critical, the type of directors you get, the skills sets, the experiences... that’s what makes it work” said Pravir Samarasinghe. His personal experiences at Richard Peiris’ had shown that organizations need people who understand the business aspects as well as the environment in which it operates. He thought that the board of directors should behave like any successful sports team.

“There should not be different agendas adopted by different board members – they all should work towards one goal and that is to take the company from strength to strength.” He also mentioned “working as a team does not mean you have to conform to everything, you don’t have to be disloyal, but constructively be very critical on all aspects.” Samarasinghe also pointed out that the chairman of a board was integral in developing and encouraging a culture of openness where issues could be discussed and managed successfully.

Samarasinghe also talked about how Richard Peiris & Co., recently introduced a strategy through which non executive directors were given designated sectors to overlook. The idea was to get the directors to interact closely with CEOs and managers of that sector so that information exchange and interaction could create a better organization.



A-section-of-the-participants.

The next module in this programme – “Making you Audit Committee more Effective” will be held on 12 February. This module among other things will discuss audit charters, representation of financial expertise, working with external auditors, risk management and internal control.