

Louise Curran: «Why I Look to the Board First»

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As a shareholder activist, one of the first things I look at when reading an annual report is the section on the board of directors, Louise Curran writes in her article on *finews.first*. Apparently, this puts me in the minority.

finews.first is a forum for authors to comment on economic and financial topics.

I am often surprised when I meet fellow shareholders who might have a strong grasp of the financials of a company or an in-depth knowledge of the competitive landscape, but more often than not they don't have a clue who is on the boards of their companies.

If you have tens or even hundreds of companies to analyze you might think that you don't have time to look at this aspect. But I would argue that this information is highly valuable if you want to understand the kind of company you are investing in or the level of risk you are facing. It's a

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relatively quick read and I promise you won't regret it. So why does it matter?

«The boring bits need to be covered first and foremost»

First of all, the composition of the board can tell you so much about the culture within an organization.

The boring bits need to be covered first and foremost. One of the primary functions of the board is to make sure that a company complies with all its legal and regulatory responsibilities. This means that certain boxes need to be ticked in terms of knowledge and expertise. For example, it is usual to find at least one member from a financial background and it's well advised to include someone with listed-company experience. But once these demands are satisfied, the subsequent appointments get a bit more interesting.

Importantly, the board is also responsible for setting the strategic direction of the company. The skills and experience needed to fulfill this role are not straightforward. The choices that a company makes can give you a glimpse of its goals, priorities, and aspirations. If a company thinks globally, its board is more likely to include international members.

«A good chairman is an invaluable resource for a CEO»

Alternatively, if the key to a company's success is vertical or horizontal integration, it is critical to appoint members with knowledge of the sector or adjacent sectors. It could be the case that board members have been selected based on their ability to help the company foster connections with local government, regulators, banks, or other financial institutions. These choices give a clear message on what management believes is critical for its business.

You may also be able to get an idea of how forward-looking the company is by checking how many of your portfolio companies have dedicated a board seat to experts in specialist fields such as digital transformation, artificial intelligence, or ESG. Are the members young or old, how diverse is the board and what is the average length of tenure?

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But more important than just providing a snapshot of the DNA of a company, the board plays a vital role in providing support to the executive management team as well as carrying out checks and balances.

A good chairman is an invaluable resource for a CEO as they can provide support and challenge them in a way that no one else can within the organization. It is not easy to judge how effectively this works from the annual report but clues can be obtained by looking at the CV of the chairman. Has he or she served as CEO of a company in the past?

«The lack of an effective board can be a strong signal of risk»

If so, did they face any specific challenges such as reorganizations, cost-cutting and redundancies, acquisitions or disposals, takeover approaches, or new product launches? The support of someone with direct experience is worth its weight in gold for the management teams facing these challenges today.

Another thing I look for is the existence of board committees, who sits on them, and how often they meet. I recently came across a company where all of the board members sat on all of the committees. That seemed to me a poor deployment of skilled people. Better to match the contribution of members more closely with their skills. Committees, when used correctly, can make the board stronger and help to speed up the decision-making process.

Conversely, the lack of an effective board can be a strong signal of risk within an organization. If no one is challenging the CEO, there is a good chance that he or she is not just driving the business but has unfettered control which can be risky for shareholders.

«It is the chairman who sets the tone»

How you interact with the company can also be dictated by the board members, in particular the chairman or, in the UK, the Senior Independent Director or SID. Your first port of call will always be the management team or dedicated investor relations contact. However, if you get an opportunity to discuss the company's challenges and opportunities with a board member, you

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are likely to get a different perspective and an honest opinion from an experienced professional from within the company.

The chairman will be your point of contact if you have any concerns about the company and how the CEO and CFO are managing it. Similarly, there should also be a dedicated board member that employees can contact if the regular channels of communication to senior management are not working for whatever reason.

The board must be open to meeting with stakeholders or, even better, proactively seek input and that listen to feedback. In my experience, it is the chairman who sets the tone for the board and dictates how receptive it is.

In short, the board plays a pivotal role in an organization and can contribute hugely to a company's success. My advice would be to go and meet with the chairman and other board members. It is a vital step in your due diligence and you may be surprised by what you can learn.

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