



**DEVANESAN  
EVANSON**

INVESTMENT DECISIONS

# EVALUATING THE BOARD

**T**HEY say an army is only as good as the general who leads it. Likewise, companies are only as good as the boards which lead them. The importance of the board and its directors are recognised under the Companies Act 2016.

Evaluating a company's board of directors is crucial before investing, as the board plays a pivotal role in guiding and overseeing strategic decisions and governance. Sometimes, investors become so fixated on metrics that the subjective evaluation of the board is overlooked.

There are a dozen things that an investor should look out for when assessing a board before investing.

#### Composition and expertise

Examine the diversity and expertise of the board members. A well-rounded board includes individuals with a mix of industry experience, financial acumen and relevant skills. Look for a balance of executive, independent and non-executive directors. If the company ventures into a new business venture, ensure that there is commensurate expertise at the board level.

#### Independence

Assess the proportion of independent directors on the board. Independent directors can offer unbiased oversight and hold management accountable. Check if any conflicts of interest exist that could compromise their independence. Assess if directors are truly independent or only appear independent in form, i.e., they satisfy the definition of independence according to the listing requirements, yet there is a strong suspicion they may not be independent in substance.

#### Leadership

Evaluate the leadership struc-

ture, including the roles of chairman and chief executive officer. Separation of these roles can enhance checks and balances. An independent chairman can lead effective board discussions. The separation of roles ensures no undue concentration of power in one individual — that there is no absolute power. And we all know that there is a risk that absolute power tends to corrupt absolutely.

#### Track record

Research the board members' professional backgrounds and accomplishments. Experience in relevant industries or sectors can contribute to effective decision-making and oversight. The directors' profile is a mandatory disclosure item in annual reports. Read it to assess their capabilities, competencies and skill sets. Know to whom you have entrusted your hard-earned money as an investor.

#### Committee expertise

Investigate the composition of key board committees, such as audit, nomination, remuneration, and other governance committees. Strong committees ensure that critical areas are thoroughly reviewed and managed. The chairman of the board should neither chair nor be a member of a board committee to ensure that the board committees are not constrained in their deliberations. The board size should be sufficient to ensure that it is effective. A too-small board tends to have the same persons sitting on all the committees. Too large boards risk being dysfunctional — inefficient, ineffective and costly.

#### Attendance

Assess the attendance of directors at board meetings and board committee meetings. Their attendance, which is a disclosure

item in the annual report, will serve as a gauge of their commitment.

#### Corporate governance

Review the company's corporate governance practices in the mandatory corporate governance statement. Strong governance policies and practices indicate a commitment to transparency, accountability and ethical behaviour. Read the corporate governance statement on an exception basis. Take note of the practices under the Malaysian Code on Corporate Governance which they have not applied. Also read the sustainability statement as this will impact the company in a real way, especially if they are unable to sell their products due to non-adherence to environmental, social and governance practices. Remember the Withold Release Orders which prevented the export of Malaysian products.

#### Board diversity

Evaluate the diversity of the board in terms of gender, age, ethnicity and background. Diverse perspectives can lead to more robust decision-making and strategic planning. Age diversity has taken on the term generational diversity. The future belongs to the young, so it makes sense to include them at the board level. Ethnic diversity allows for diverse perspectives to be deliberated. As cliché as it sounds, the board should celebrate rather than shun differences. We are a melting pot of many ethnicities — if only we could manage our prejudicial and stereotyping tendencies.

#### Alignment with shareholders

Investigate whether board interests are aligned with shareholders' interest. Look for instances where executive board members hold meaningful equi-

ty in the company, demonstrating their commitment to its success. Share grants or ESOS to executives aligns their interests with shareholders' interest.

#### Stability and turnover

Understand the board's stability and any recent changes in membership. Frequent turnover suggests underlying issues or a lack of stability. Be wary also of frequent management position turnovers. Frequent board and/or management changes, if unexplainable, may indicate that all may not be so well.

#### Risk oversight

Assess the board's approach to risk management. A strong board should be actively involved in identifying and mitigating risks that could impact the company's performance and reputation. Read the risk statement to better understand the company's risks and opportunities and how the risks are being managed.

#### Communication

Evaluate the board's communication style with shareholders. Transparent and clear communication can provide insights into the company's strategic direction and decision-making process. Attending an annual general meeting is the best way to assess how "open" the board is. How the board answers questions will further indicate their openness and transparency, and the respect they have for you as shareholders and part owners of the company.

All in all, a strong and well-structured board can contribute significantly to a company's success and long-term value. As such, it is an essential factor to consider when making investment decisions.

The writer is chief executive officer of Minority Shareholders Watch Group

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