



# Board members are independent but are they legitimate and credible?

## Institute for Governance (IGOPP)'s Policy Paper

---

**Montreal, June 7, 2017** – Today, the Institute for Governance (IGOPP) is publishing a policy paper entitled: *From independent to legitimate and credible – The challenge facing boards of directors.*

Back in 2008, IGOPP had noted that, despite its presumably crucial role and its omnipresence, the concept of «independent» board members lent itself to several interpretations. It was taken for granted that a board made up of a majority of truly independent directors would deliver better governance and a more diligent focus on improving the performance of the organisation for all its stakeholders.

The financial crisis of 2008 and other widely reported mishaps have dented the confidence in «independence» as an assurance of effective monitoring and investor protection. Ever since that time, IGOPP has been advocating for a broader assessment of boards, namely ***their legitimacy and credibility***. Let «independence» be a necessary but insufficient condition of legitimacy. However, the issue of board *legitimacy* raises a host of relevant questions: who does, or should, nominate members for the board? Who elects, or should elect board members? Why only shareholders may elect board members of publicly traded corporations? Does diversity, or lack of such, become an issue of legitimacy for boards?

Since 2008, IGOPP has also been proposing that a ***board's credibility*** is a condition *sine qua non* of its effectiveness and ability to add value. Clearly, all, or nearly all, boards meet the regulatory requirement of a majority of independent members, but are boards generally credible?

IGOPP proposes that board members be evaluated for their specific knowledge of, and experience with, the type of business or organization they are asked to govern. Do members understand in depth its business model, its drivers of value creation, the risks, issues and challenges in this particular industry, its comparative performance, etc.?

A board of directors is only credible to the extent that a significant number of its members are able to interact knowledgeably with management on components of performance and the multiple factors that have a dynamic influence on that performance. This type of exchange calls for a board's deep and systemic understanding of the company's business model.



***Credibility also implies that board members are perceived as principled and trustworthy.***

The chair of the board and its governance committee should devise a selection grid which corresponds to the current requirements for board membership. Thus, more than half of the members must be independent and a degree of diversity is becoming an essential requirement of the board make-up. Ideally, the board should look for new members who are independent, add to the board's diversity, *and are credible* within the meaning given to this term in this policy paper.

This policy paper strongly suggests that boards should begin by identifying industries with characteristics that closely track those of the industry in which the target company operates: such as capital intensity, time horizon of investments, industrial vs. consumer markets, international scope of competition, key success factors, strategies and drivers of value.

The reason for this is obvious. As recruiting board members from the same industry will often result in candidates who are not independent for some reason or another, the search should be broadened to industries which are similar in important features.

Executives with experience in such industries will more quickly master the essential aspects of a company operating in a "similar" industry. This recommendation will help reconcile the regulatory need for "independence" and the important quest for "credibility".

The policy paper published today provides guidelines for the selection and evaluation of board members to enhance their legitimacy and credibility.

IGOPP reminds all boards of directors that:

"It is through its legitimacy that a board gets the right and authority to impose its will on management but it is only through its credibility that a board will create value for all stakeholders of the organization" (Allaire, 2008).

**The IGOPP's policy paper is available at [www.igopp.org](http://www.igopp.org)**



**About IGOPP:**

Created in 2005 by two academic institutions - HEC Montréal and Concordia University – The John Molson School of Business -, the Stephen Jarislowsky Foundation and the Autorité des marchés financiers, the Institute for governance (IGOPP) has become a centre for excellence about governance of public and private organizations. Through Research and publications, Seminars on value-creating governance®, Policy papers and Board evaluation and governance interventions, IGOPP has become a key reference on all issues of governance in the private and public sectors. For more information about IGOPP, visit [www.igopp.org/en](http://www.igopp.org/en)

(30)

**General Information and Media Inquiries:**

**Majida Lamnini**

Director, Strategic Initiatives, IGOPP

514.439.9301

[mlamnini@igopp.org](mailto:mlamnini@igopp.org)

[www.igopp.org](http://www.igopp.org)

**Ginette Hains**

Project Director, IGOPP

514.439.9301

[mlamnini@igopp.org](mailto:mlamnini@igopp.org)

[www.igopp.org](http://www.igopp.org)