THE ROLE OF THE CHAIRMAN IN BOARD RECRUITMENT

ARTICLE BY SEAN RUTTER

Sean Rutter is Managing Director of KWR, an executive search firm specialising in senior appointments in emerging and frontier markets.

Forward-thinking organisations across emerging and frontier markets increasingly recognise strong board-level corporate governance begins at the recruitment stage.

If it is true that an organisation's board is a reflection of its fundamental values, then it is equally true that incoming board members must be recruited as much to fit into existing governance structures as to challenge and to improve them.

Optimal recruitment at the board level is far from straightforward - there is no one-size-fits-all policy that will ensure success.

Recruitment and succession planning should be seen as an ongoing process rather than an event and this process should be aligned to the long term strategy of the organisation. The role of the chairman is to ensure that the board and its committees, especially the nomination committee, have this continual process in mind and that rational, rather than reactive decisions are taken. While many chairmen delegate execution to the nomination committee, the main instigator and continual champion of this long term approach to recruitment and succession planning begins with the chairman.

While the chairman and the board in general continue to use their own networks to source candidates, many chairmen are increasingly using third parties to widen the reach of candidate sourcing, especially where the board seeks to boost levels of diversity. When a search for a new CEO is required, some chairmen increasingly use third parties as part of a benchmarking exercise; this is increasingly common within large listed organisations with higher levels of governance than their peers. Third parties benchmark insider candidates against what the external market can provide. This can often make for a more informed decision making process rather than boards only considering candidates who are at "arm's length".

Before any approach to prospective candidates can be made, the head-hunter must truly understand both the mentality of an existing board and how far along the road it has travelled towards governance excellence.

This process will necessarily involve meeting existing board members, individually and collectively, and watching them in action – listening to what they might not say as much as to what they do say.

It will also involve a significant level of research and understanding, speaking to people with an intimate knowledge of the client organisation and its board – for a third party who asks the right questions, the answers can be highly illuminating.

Often – through no fault of its own – a board will have little idea of how it compares to the boards of other organisations, or of how attractive, or unattractive, its governance culture might be to prospective members.

Securing a candidate, then, who will prove to be the right fit – helping an organisation to unlock and safeguard long-term value without causing negative disruption – is complex: it is as much about understanding human relationships as it is about the procedures of improved governance.

While the rewards for success are well documented, the repercussions of failure can prove disastrous – both for the board as a whole and for its individual members. In order to achieve the best outcome for all parties, a head-hunter must be sufficiently experienced to recognise and understand, often intuitively, a board's expectations at the outset.

It is only with this knowledge that a search can commence and a candidate be found who will not frustrate or be frustrated, but, rather, will drive an organisation's governance forward, creating value for both shareholders and stakeholders.

Typically, a head-hunter will be approached by organisations either keen to refresh their boards to better reflect a changed market, at the end of members tenure, or to discreetly replace a board member who has not proved effective. In both cases, dynamic organisations are the ones that recognise they want to look beyond their traditional personal and professional networks.

These organisations wish to embrace the concept of boardroom diversity – they understand that modern boards no longer comprise only people from the same national, social, ethnic, or professional backgrounds. A fresh outlook requires a fresh perspective – and achieving this in the boardroom requires diversity.

However, while it is easy for a board to say it welcomes new thinking and new voices, it is often the case that in practice the adjustment can be a difficult one to make.

Constructive dissent or difference of opinion at board level, no matter how professionally expressed, can be a jolting experience for boards unaware of their own captive group-think or not used to hearing the views of anyone but the chairman. The key is to manage the transition effectively, and this usually means making progress gradually, not suddenly.

When I meet a board, I like to watch the way the board members interact with one another. If only one or two people are speaking and the others are nodding their assent silently, regardless of what committee they sit on, it can often indicate areas for further probing and signals the potential "must know" dynamics for any future board member.

After all, good board-level governance is about utilising the experience of members by listening to differing opinions, debating them and collectively arriving at the optimal course of action.

A board where everyone agrees with everything the chairman says runs the risk of being unanimously committed to the wrong approach – or of allowing the blind to lead the blind. Such an approach to governance is, of course, self-defeating, and, ultimately, unlikely in the long-term to protect shareholder value.

Parachuting a candidate only used to European or American-style governance without regional understanding and experience into a board like this is unlikely to bear fruit or to be a mutually agreeable situation – no matter how firmly the board might have expressed a desire to develop or change its governance.

Far better, instead, to gain at the start a realistic picture of expectations, and to get an idea of the timeframe in which it is hoped these expectations might be met. This is information with which it is crucial – and fair – to prepare a board candidate.

All board-level head-hunters are familiar with stories of candidates who have arrived keen to deliver change, only to discover change will take many years, not months, to effect. This is a situation that can only lead to frustration and, at worst, aggravation.

Ensuring both the candidate and board understand, ahead of time, what the process of change will entail is thus integral to modern recruitment of board members.

In my experience, there are four types of boards. There are boards that are either effective, efficient or excellent. And then there are boards that are ineffective. Recognising where the board for which you are recruiting sits on this scale is vital to finding suitable talent, and each category presents its own challenges.

Ineffective boards, typically, do not last long. Generally, shareholders will see relatively quickly that an ineffective board is damaging value by failing to make the best decisions, or by protecting an inadequate CEO, and they will swiftly thereafter take action – normally by decimating the board.

Increasingly, as organisations in emerging and frontier markets strive to become optimally attractive to investors, the damage poor corporate governance does to shareholder value and the reputations of both the organisation and the authorities who regulate the market is being uncovered, and we now hear relatively often in the news of large or listed organisations undergoing governance and reputational crises.

To my mind, these crises are good and necessary, because they bring about change. Crisis and opportunity have long been bedfellows, and certainly this is the case in modernising boards that are stuck in the past or slow to welcome diversity and rigour.

For example, practices that are frowned upon in countries where levels of corporate governance may be higher, such as allowing the offices of CEO and chairman to be held by the same person, or keeping auditors docile and obedient, or safeguarding executives and board members from accountability and responsibility, are generally the first casualties of crisis.

Post-crisis, the temptation for organisations is often to urgently populate their board with high-profile members possessed of solid reputations for governance excellence. While the urge is understandable, it carries significant risk: should such a candidate resign before their term expires, reputational damage is redoubled.

In these instances, it can sometimes fall to the head-hunter to advise and support the existing board in the optimal way to proceed.

Approaching candidates for effective, efficient or excellent boards is about ensuring the candidate is fully versed in the culture and challenges they will meet should they accept the seat, and understanding their individual professional needs.

For example, where some candidates might baulk at the notion of joining a board upon which some members are 'placemen' – representatives of powerful stakeholders uninterested in effecting strong corporate governance – others will see the prospect as an interesting challenge.

I have worked with candidates who have relished the opportunity to bring perceived placemen onside, and to turn their passivity into enthusiasm that can be channelled into bringing improved governance.

Conversely, other candidates, often those closer to the later stages of their careers, have said they do not find such a challenge appealing, and that they prefer instead to put their skills to work in an environment already proven to be receptive to new ideas and to corporate rigour.

Both approaches are valid, but it is the skill of the good head-hunter that ensures the candidate keen to make his or increasingly, her mark does not end up in the settled, excellent boardroom where there is little to contribute and the candidate happy to work only in an environment of excellence does not find themselves seated in a room of passive placeman where the commitment to improvement is non-existent.

I believe strongly in the importance of the role improved corporate governance plays in the long-term health of the region's economies, by creating value, attracting institutional investors, building diversity and promoting transparency and disclosure.

But no matter how laudable the ambitions of emerging and frontier market boards to continue to improve governance, the task of doing so is hopeless without the right people with the right sense of duty and values.