

It takes discipline – and behavior change – to build a successful board



Sonny Iqbal

Egon Zehnder, New Delhi

In our role as leadership advisors, we are often asked to conduct board effectiveness reviews. These comprehensive studies help boards improve their performance by recommending specific changes that impact board dynamics, process improvements and governance. One of the most common recommendations – particularly among growing enterprises transitioning to a more professionalized boardroom – is to establish a robust process for recruiting independent directors. A well-chosen slate of independent directors can significantly strengthen a board and contribute to the success and perpetuity of the enterprise.

The independent director recruitment process often starts well. We meet with the chair of the board or of the nominations and remuneration committee (NRC) and discuss the strategic issues facing the company, the board's relationship with management and the diversity of perspective and experience that the board needs. We add our own knowledge of the space along with an analysis of the current members to create a competency profile of the director to be recruited. Often, however, these guiding principles fall by the wayside. Instead of reflecting the big-picture strategic issues facing the company, the independent director is chosen on the basis of familiarity or comfort emerging from past affiliation. Sometimes, there may be tactical considerations at work, with the board chair appointing someone from a potential acquisition target or a "brand name" that will appeal to lenders or investors.

These approaches are perfectly rational – yet they are more than likely to prevent the board from fulfilling its potential.

The whole point of adding independent directors is to bring outside perspective and critical distance that can help the board with its decision making and risk management. By definition, this cannot be done by directors who are family members, insiders or who may have vested interests. And as for using board seats to accelerate an acquisition or boost access to capital, we believe that these sorts of initiatives should be the responsibility of the CEO and his or her executive team; the board's job is to provide oversight and counsel.

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The core issue is this: As companies grow from being founder-centered enterprises to more complex and self-sustaining, boards must transition from being tactical instruments for transactions and compliance to becoming strategic assets focused on oversight and helping management navigate increasingly complex objectives. The only way to do this is for the board chair to step back and allow the NRC to take charge of director nominations. This is necessary not just to make board composition more process-driven, but because managing board composition and director succession is an ongoing commitment – one that involves identifying gaps in the board’s competencies, proactively developing relationships with potential directors and managing the cadence of director turnover. This range of tasks is much better suited to a committee than an individual.

Of course, this presupposes that the NRC is fully equipped and empowered to manage board succession. The committee should be chaired by someone other than the board chair, and ideally, the majority of members should be independent directors. Further, committee members should have the governance experience to “know what good looks like.” This broader perspective should give them the authority to frame the board’s director succession planning and compensation strategy.

Companies that professionalize their approach to board composition will be rewarded. For example, we were asked by a newly-incorporated automotive parts manufacturer to help establish its board. The chair had the foresight to specify that the directors should be drawn from a range of industries and backgrounds, including corporate strategy, manufacturing and finance. This diversity of boardroom talent – and the free rein the board was given by the founder – allowed the board to quickly become an invaluable asset to the management team, with the two collaborating on strategy, challenging assumptions and debating various acquisition possibilities.

A second example involved a North American enterprise that purchased an Asian company and rebuilt the latter’s board to give it greater strategic capability. Working with group headquarters, we developed a list of desired experiences to be represented around the boardroom table, including multinational M&A, corporate turnaround, a stint working at the global headquarters of a multinational corporation and deep knowledge of the local economy. We also suggested as many of the directors as possible should be retired CEOs so that they could provide business and governance advice at inflection points in the company’s life cycle. Over the course of six months, five new independent directors were recruited to the board, and following a comprehensive onboarding process, they are becoming a key strategic resource to management.

That more boards are realizing the importance of professionalizing the director nomination process is an important step toward world-class corporate governance. But this evolution calls for more than following external guidelines and regulations – it requires a change in behavior and thinking.

Sonny Iqbal co-leads Egon Zehnder’s Family Business Advisory Practice, where he advises the boards and CEOs of multi-generation, global family businesses on succession, governance and development, and on recruitment and retention of non-family executives.

Contact Sonny at: sonny.iqbal@egonzehnder.com or +91 124 4638003