# Boardroom INSIDER

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*The online resource for better boards and better directors*

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## WHY BOARDROOM "SPECIALISTS" NEED NOT APPLY

***Over*** the years, I've read, edited (and even wrote) many articles on how corporate board makeup is shifting to meet evolving business and society needs. The trend everyone is talking about currently is board diversity, particularly when it comes to gender. In January, mega-bank Goldman Sachs announced it will ***stop underwriting IPOs*** for firms that don't feature at least one woman or diverse candidate on their boards (and next year they'll ramp this up to two). Since Goldman is the top underwriter of U.S. initial public offerings, this sounds like a very big deal.

While diversity is a boardroom issue that's grown exponentially of late, there have been other calls for change over the years, ones that go more to the nuts-and-bolts of board function. How well these moves have succeeded might offer some lessons for those pushing diversity.

The corporate board of directors has always had a vague, subjective function. Despite solid (and growing) legal responsibilities, the makeup and workings of boards worldwide tend to be whatever founders, investors and managers want them to be at the moment. This also means that everyone with an agenda to push is certain that board membership is the perfect tool to reflect it. In the decades I've been involved in governance, I've seen almost every specialty make a compelling case that their particular skill is "urgently needed in today's boardrooms." Financial expertise (prodded, at least in the U.S., by the Sarbanes-Oxley rules). Human resources expertise. International expertise. Litigation expertise. Marketing expertise. All manner of IT, digital marketing, and data security expertise. Compliance expertise. The shopping list goes on and on.

A compelling case can be made for all these skills on a board of directors. But, when it comes to recruiting specialists in these fields, not much has happened. It was hoped, for example, that adding board members with hot, current digital skills would crack open the age, job title and gender conventions that make western boards so pale, male and stale. Hasn't happened. Instead, boards are still seeking seasoned CEOs and CFOs, but salting their lists with added tech exposure (and the other specialties noted above).

While this suggests boards dragging their heels when it comes to change, it actually fits well with governance realities. The expertise list above would make for a crowded, ever-shifting board makeup if specialty in those skills was the main qualifier. A boardroom shift from top-level business generalists to specialists sounds good, but doesn't fit with the broad, 10,000 meter view a board needs to take, particularly at a public company. This suggests that demands for more board diversity will only happen if they're paired with more skill diversity.

***-- RDW***

## COMP COMMITTEES-HOW THEY'RE CHANGING

As corporate boards take on more direct corporate oversight and (and face greater personal responsibility), their committee structures have evolved to cope with far greater workloads. Audit committees now have a huge portfolio that includes risk, compliance, and disclosure. The sleepy old nominating committee is today the nominating/governance committee, and tasked with all the growing demands for better boardroom standards and shareholder relations.

And the compensation committee? The exploding complexity of exec pay plans (and white-hot attention to pay levels) already gave comp committees more headaches. But they're also expanding their ambit to include topics far beyond the exec paysetting role. What should you look at when shaking up your comp committee's charter?


*RALPH WARD'S BOARDROOM INSIDER* is published monthly for directors, CEOs, those who work with corporate and nonprofit boards (corporate secretaries, corporate counsel, support staff, and consultants), and board prospects.


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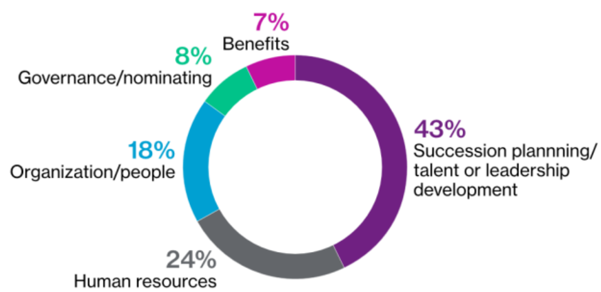
■ Know that the committee is definitely outgrowing its old clothes. A new Willis Towers Watson survey found 40% of the S&P 500 have juggled their comp committees' charter to look beyond just executive pay oversight.

■ The committee typically used to look at pay plans for the chief executive and top reports, but that circle of focus is growing. "At many companies, the committee is showing more interest in the broader talent pool," says Don Delves, a managing director and practice leader with WTW. While the top team is responsible for pay structures throughout the organization, these have an impact on overall talent recruitment and retention, and the CEO's team increasingly finds this factoring into their own comp. Over half of the companies in the study above oversee wider company comp and benefit structures.

■ To manage this new board role, the committee is looking at a lot more HR data beyond just pay levels. What does the company recruitment plan look like (particularly on diversity medians)? What are turnover rates telling us on workplace issues? What do our management development and succession plans look like, and how do they stack up to competitors? "It starts with board questions," notes Delves. "That leads to management producing new reports, data and studies." Eric Hosken, of Compensation Advisory Partners, concurs on this, and sees an attitude change in comp committees he advises. For example, "There's more awareness of gender in pay decisions today. If the committee sees female candidates getting a smaller increase on a promotion, they question that now."

■ Tied into this are growing concerns (and disclosure requirements) on pay equity. What data does the company compile on male/female pay levels? What does the CEO/median employee pay ratio look like, and how is it calculated? How regularly does the committee review these, and is your investor relations staff monitoring potential shareholder concerns with them?




■ How does the comp committee *itself* evolve to meet these new demands? "Committees are changing their charters and sometimes changing their names, but there's debate on how to do that," notes Delves (see chart at right of popular committee titles seen in the WTW study noted). ***Newell Brands*** now has an "Organizational Development & Compensation Committee." ***Teradata Corp***. offers a "Compensation and Human Resource Committee."

■ Though the comp committee is gaining new powers, duties and terminology, it's also facing some added restrictions, says Hosken. For example, while they're expected to do more internal analysis on gender diversity and pay equity, "it's difficult to keep legal privilege on these," and the numbers could prove awkward in later litigation. Also, state laws are making it more difficult (sometimes impossible) to ask about candidate's pay histories, complicating offers.

## COMP COMMITTEES -THEIR NEW C-SUITE HIRING ROLE

As noted in the above article, board compensation committees are taking on a stronger role in hiring and succession for execs below the CEO level. But this aspect pushes into some tricky areas when it comes to balancing board and executive powers. Boards have always held some "advise and consent" role in selection for the CFO, COO, divisional heads, and so on, but broader oversight and deeper involvement bring potential conflict. How does today's compensation committee (and the board overall) shape a "nose in, fingers out" approach to hiring your C-suite team?

■ A first step both for a positive impact *and* to avoid stepping on toes is to lay out thoughtful charter language for "who and how" when it comes to board hiring involvement. Though this seems like a role for the compensation committee, as noted above, it's not always the case. "While compensation should be involved, I think the entire board has a role," says John Hodge, managing partner with U.K-based Miramar Partners executive search. He sees some boards, at least in Europe, with a dedicated hiring or planning committee, while the private equity and venture firms he works with take a whole-board approach to assuring top talent. For larger, more established companies though, focusing c-suite succession in one body with the resources of the compensation committee can smooth the process.

■ In writing up board/committee duties on C-suite talent hiring, be sure to address what-ifs. If the board is too hands on, how will you know it, what are the boundaries, and who in management will call a time out? If the CEO is making the case for a candidate, but faces pushback from the board, how do you assure both side's views are respected? What rules should you set for nuclear options when the board or committee wants to block a hire supported by the CEO?

■ Hodge works closely with boards on talent searches, and sees 6 areas where their input is most valuable. *Alignment* (defining company culture as part of the search). *Identification* (active involvement in shaping job descriptions). *Engage and assess* (the CEO and HR aren't the only bodies communicating with candidates – the board also lays out its priorities). *Short-list interviews* (board interview involvement should only be needed when finalists have been set). *Offer management* (the board needs savvy on industry benchmarking and peer contracts to shape sound offers). *Onboarding* (the board follows up with hires, and is active in the orientation process).

■ Old style – the board or committee had little or no say in the search firm handling the C-suite engagement. New style – "often, especially for particular hires, the board will be in on the search firm selection," says Hodge. He finds that the board then isn't involved in the granular day-to-day business of the search, but shares input when the process is winnowed to 3 or 4 finalists.

■ Boards may be paying closer attention to internal talent development and succession planning today, but Hodge finds "the C-suite itself is largely the steward of organizational development." Still, a board or committee advise and consent approach on succession plans, approaches and timelines is valuable because "the board members are execs who've been through this themselves," and can share useful insights.

## PROXY SUMMARIES - 6 BOARD "MUST KNOWS"

With annual reporting season underway, many of our readers are up to their elbows in the writing, design, review and approval process, so we won't tie you up with a "trends in annual reports" article – that ship has already sailed. But there is one AR element that's rapidly grown both in usage and in value over the past few years, and it's usually the last item on the checklist – the *proxy summary*.

This brief "high points" intro at the front of the report has gained much traction lately as an investor relations tool. What does your board need to know about getting proxy summaries right as you wrap up the annual report?

■ First, brief summaries are needed today as annual reports have grown ever fatter. A recent EY survey of the FTSE 350 found annual report length hit 186 pages in 2017, up 26% in 5 years. But another survey found investors only read about 32% of the whole thing. As a result, use of AR proxy summaries by major U.S. firms climbed from 36% in 2013 to 73% for 2019. If your company wants to communicate a handful of crucial messages to investors and other readers, a short, punchy summary of the AR is the route to take.

■ Such as? "Items like compensation, governance structure, and ESG status," says Anthony Saitta, a managing director with corporate communication advisor ***FTI Consulting***. His firm has seen pay tables and rationale, and company diversity initiatives getting the most play lately. *Going forward* – look for more info on sustainability and social responsibility.

■ With something as new as the proxy summary, there will be lots of variations in content, so let's look at medians. A survey of the S&P 500 by proxy communication firm ***Toppan Merrill*** showed that 95% of their summaries include the company's proxy voting recommendations; 85% the slate of director nominees (with an easy-to read dashboard of qualifications); 75% pay highlights (typically the top element by bulk); and 55% performance reviews on items like operations or finance. Further, half of the summaries offered board info on qualifications and experience.

■ Proxy summaries cram in a lot of info, but it's not all grey type. Charts, graphs and bullet points are integral to telling the summary story. "Use of infographics draws the reader's attention to key points and makes the summary visually appealing" says the Toppan Merrill review.

■ Length of the summary? Anything from one to 5 pages. Beyond that and "it just becomes another part of the annual report itself" notes Saitta. One pending danger may be bloat -- as the value of proxy summaries becomes more obvious, everyone will want to get in on the act and add info. Also, work to check the impulse to stuff the summary with just your AR's "good news." Make it as objective a summation of overall info as possible.

■ Who does a good job of this? ***Shutterfly*** uses its proxy summary introductory well, as does ***Tanger Factory Outlets*** and ***Lockheed-Martin***.

## THE WORLD OF PUBLIC INVESTMENT FUND GOVERNANCE

Boards of directors in every sector face their own unique issues. But suppose you served on a board that you were assigned (not elected) to, couldn't elect the chair, have limited ability to hire or fire management… and yet face extremely tight standards for fiduciary duty?

Welcome to the world of public pension fund governance. The boards that administer public employee retirement and investment monies, at least in the U.S., function as quasi-governmental fiduciaries, and the stakes are high. The combined U.S. state, local and municipal funds measure in the trillions (CalPERS, the largest state fund, alone accounts for $326 billion). How do board members handle this role? I spoke with one of the experts in pension fund governance, Amy McDuffee, whose ***Mosaic Governance*** consults with funds nationwide.

- While most board members are elected by their investors or recruited by the board itself, public fund directors usually "are members from the system, or sit on the board by virtue of their position." That means government offices, unions, elected officials, and so on are named to the board by statute. Not only does this pre-determine membership, it makes any board say in evaluation of members or succession planning irrelevant. The recipe is already set before the board ever convenes (and this typically applies to naming the board chair as well).
- As with parastatal boards worldwide, politics can follow board members into the boardroom and steer their priorities. These include investment policies, labor issues, ESG concerns and state budgeting. "Perceptions can become reality, but the boards I know work hard on this politics issue," says McDuffee.
- Despite their fiduciary duties when it comes to investment for members, public fund boards have surprisingly little control over their administrative purse strings. "One thing that's distinctively different [from corporate boards] is that these boards don't get to approve their own budgets." The fund's administrative needs are typically set by the involved government agencies, and approved by legislators. And most board members get no pay for their work, at best perhaps a travel budget or small per diem.
- The power balance between the board and management also tends to be bureaucratic. The CEO/executive director is commonly a named civil servant position. That keystone description of the board as "the entity empowered to hire/fire the CEO" then doesn't apply (and typically they even have little say in setting CEO pay).
- Despite these limitations, McDuffee sees best practice public fund boards serving as active, involved fiduciaries. She finds that board members, even those assigned to the board as "added duty," work hard to educate themselves on the intricacies of financial and investment oversight. "They benefit from annual fiduciary training to remind them that what got them on this board is not necessarily what makes them successful." Also, she sees fund boards becoming much more active in strategic planning today. This is proving beneficial in shaping investment policies around political tides, defining board/management powers, and professionalizing fund operations.
- For those involved in public investment fund governance, McDuffee recommends two helpful resources. The National Association of State Retirement Administrators (***NASRA***) and the National Conference on Public Employee Retirement Systems (***NCPERS***) both offer loads of resources, training and networking opportunities.

## *BI* ONLINE FINDS – 2/20

- Is your board aiding the CEO with the chief executive succession planning process? Probably not as much (or as effectively) as it should. An insightful ***HBR article*** from last year offers good advice helping the CEO move on (one nugget – the CEO should view the role not as a job, but as a project).
- Boards worldwide are increasingly naked when it comes to investor disclosure and transparency (that's an image to catch your attention) What do your shareholders and analysts really want to know more about? Equilar has researched a ***smart summary*** of what topics your stakeholders expect transparency on (ESG, talent pipelines, diversity, etc.).
- The two articles above on compensation committees offer lots of food for thought on how comp is doing more, shape shifting to meet new needs, and reviewing far more data. What should the final output look like as a disclosure to shareholders? Bank of America has unveiled a new "***Human Capital Management Report***" that provides a best-in-class briefing on how the bank manages its most crucial asset (and the board role in making it happen).

## *Q&A*: How Does an Investor Make a Boardroom Impact?

***Q***: *Our fund is invested in a substantial food service company. This company is public, though it still has substantial family ownership and a founder in charge. Their market share has been slipping, and our fund has been pushing some changes in strategy and structure. After some back and forth with management, they agreed to elect me to the board representing our fund. As I said, we have an agenda of turnaround ideas for the company, but I'm just one director fighting for these. How can I make the most effective boardroom impact?*

***A:*** Coming into the boardroom as a (less than welcome) outside interloper means you "have to thread a needle," says Ted Gavin, a managing director and founder of ***Gavin/Solomonese*** restructuring consultants. "The best thing you can do, whether you represent an investor or a debtholder, is to be informed." This goes beyond the research and due diligence your fund has invested on the company and its troubles, but also means studying the board itself. Who are your fellow directors, what are their backgrounds, priorities, and perhaps hidden interests in the firm? "Understand what's important to the other directors – don't just pound your fist on what's wrong."

Gaining a board seat will aid in communicating your fund's view on strategic change from the inside, rather than the outside. You'll add the urgency of fiduciary duty. "Your first obligation is to tell them your views," says Gavin. "Failure to communicate would be a board failing." The board and management can't be responsible if you're not clearly telling them what needs to change. But pushing dramatic, quick shifts from the boardroom, especially given the structure you describe, likely won't prove effective – take it step by step.

And if the slow and steady approach doesn't seem to bring needed results? "This can be a problem in smaller corporations, with fewer stakeholders and an entrenched founder. No one wants to disrupt things – they assume the founder knows best." However, this isn't the time "for a dramatic coup," Gavin counsels, but rather for one-on-one politicking with individual board members, as well as other investors. If the problem with results is accelerating, you'll find the other directors more willing to consider a shakeup, which might also mean a change in management. Be aware, though, that while a crisis can help drive change, it also raises the boardroom temperature. "If you're a director, dysfunction brings the worse out in people."

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- *THE BOARDROOM AS YOUR NEXT STEP IN AN ACADEMIC CAREER*
- *WHAT DOES AN "EMERITUS" DIRECTOR REALLY MEAN?*
- *CORPORATE MINUTE BOOK MUSTS*

## *Ralph Ward's upcoming Boardroom Masterclass and speaking engagements:*

My November program on emotional intelligence for board chairs at the ***Marcus Evans Governance Conference*** in Dubai drew a great group! Join me when I head back to Dubai in April for the AnyGlobal ***Boardroom Excellence Masterclass***. Early 2020 programs are in the works for Africa and the South Pacific.

Visit the ***speaker*** page on the *Boardroom INSIDER* site for links to keynote speech videos, and also my listing on the ***eSpeakers*** site.

**Boardroom webinars through *GRCEducators* and *AudioSolutionz* - check their websites for details and to register.**

***Ralph Ward*** is author of the books *BOARD SEEKER, BOARDROOM Q&A, THE NEW BOARDROOM LEADERS, SAVING THE CORPORATE BOARD, IMPROVING THE CORPORATE BOARD* and *21st CENTURY CORPORATE BOARD*, and a speaker on corporate board issues.

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