

Amrop Board Series

Nominations Committees A User Guide

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Leaders For What's Next

Nominations Committees: a User Guide

It has become the norm for Boards to plough time and resources into remuneration and its spin-offs. I believe that the time has now come to deliberately engineer strategic, integrated human capital think tanks in the form of cutting-edge Nominations Committees.

The case is made by the FRC's¹ October 2015 paper "UK Board Succession Planning." This sets out the key topics for Non-Executive Boards if they are ever to successfully implement their strategies.

Investors, too, are voicing demands for Nominations Committees to raise their game. A recent PwC study in the US² signalled dissatisfaction by major investors in a series of NC tasks: from succession planning and talent management, to executive performance metrics and compensation.

What challenges do Nominations Committees face? Where do the opportunities lie?

Regulations and Codes

The UK Corporate Governance Code, one of the more refined examples, currently guides corporate governance standards globally. Whilst it has merits, other perspectives, (for example, from Brazil), are worth bringing into the equation.

Where the Nominations Task is Housed – Compensation, Nominations and HR Committees

"Structure follows strategy" (organizational purpose and goals) including the design of Board Committees.

The UK code, despite its strengths, implies separate Compensation and Nominations Committees. I propose an integrated Corporate Governance approach.³ In Brazil, integrated Human Resources Committees are increasingly responsible for nomination, succession planning, and compensation. This, for Non-Executive and Executive Boards and beyond, to key function holders.

So if the FRC paper asks: "What, if anything, can be done to improve the standing of the Nominations Committee?" then an integrated HR Committee is one answer, garnering more attention, a higher profile, and ultimately doing a better job.

¹ UK Financial Reporting Council

² Investor perspectives: How investors are shaping boards today... and into the future, 2014

³ Prof. Martin Hilb – Integrierte CG



Nominations and Compensation Committees have invested time, money, and energy in investor dialogue, designing and implementing multiple variants of pay-for-performance schemes, trying to balance management and stakeholder demands.

Too much, in my view, with limited value for clients, employees, or sustainable organizational development.

Meanwhile, more important strategic HR topics have been neglected by Boards and left to executive management.

For smaller companies (thus, smaller Boards), how many committees make sense? Should NC/CC tasks be a collective Board mandate? If this makes sense for some areas (CEO nomination, overall HR strategy, the basics of the compensation scheme), small Boards also need the relevant skills and experience. We will come to the scope and composition of the NC/CC later.

NC/CC Focus To Date and Still Today...

Audit and Remuneration Committees have typically been the focus of governance reforms, a channel for energy and attention due to the problems created by the 2008 financial crisis and the questionable Personal Governance⁴ of some senior executives.

Investors and clients, outraged by compensation excesses, forced corporates to assess management more rigorously - to pay primarily for performance.

NC/CCs, meanwhile, have invested time, money, and energy in investor dialogue, designing and implementing multiple variants of pay-for-performance schemes, trying to balance management and stakeholder demands. In my view, too much energy is being spent here, with limited value for clients, employees, or sustainable organizational development.

Meanwhile, more important strategic HR topics have been neglected by Boards and left to executive management. It is time to finally define the role of Nominations Committees, to properly staff them, and smartly wire NC activities into corporate strategy and financial management.

Particularly on succession planning, the FRC discussion paper makes a strong point: "Clarifying the role and responsibilities of the nomination committee, and raising its profile, are key factors in promoting the importance of succession planning."

As for all governance bodies, the composition of Nominations Committees is crucial. Yet given the focus on compensation, a proper NC may be absent, or under-equipped. To name just two issues, stronger Nominations Committees could have driven better, faster progress in diversity, and digital-ready Boards.

⁴ The 7 building blocks of *Personal Governance* form a pathway for managers to create good *Corporate Governance and leadership*. See Amrop: 'Personal Governance, The Cornerstone of Corporate Governance and Leadership', based on 'Personal Governance als unverzichtbarer Teil der Corporate Governance und Unternehmensführung' – Fredy Hausammann, (Haupt Berne, 2007)

Stakeholder Expectations

Investors, shareholder representatives, staff and other stakeholders have shifted attention to Nominations Committees.

The PwC study highlighted the following as top of mind for large US investors, and areas of dissatisfaction (with high development expectations):

- Assessing director performance (61% satisfaction with current status)
- Preparing for executive succession (35% satisfaction with current status)
- Evaluating management performance (26% satisfaction with current status)

Investors were asked which areas corporate Boards should prioritize for the coming years. One third of the top twelve were NC/CC topics: executive performance metrics, executive compensation, succession planning and talent management.

In my experience, the PwC findings are not limited to the US.

Investors and shareholder representatives also have clear expectations regarding NC independence. 'Compensation and Remuneration of Boards of Directors,' a 2014 ECGS⁵ survey, signals that European NC's need to improve their level of independence. This stands at 62%, compared to Audit Committees (70%).

The recent FRC discussion paper on Board Succession Planning refers to a 2014 Grant Thornton study which revealed that NCs met fewer times annually than other committees did – with an inferior quality of disclosure. The FRC report on Stewardship and Corporate Governance (January 2015) signals room for improvement in the provision of information on the Board of Directors (beyond biographies). It calls for transparent reporting on why an individual gets elected, and what s/he brings to the boardroom table; skills, experience, know-how and independence, and an account of his or her contribution to Board effectiveness.

⁵ Expert Corporate Governance Service, Paris

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The Primary Tasks For Tomorrow

Business Strategy, Financial Management, Company culture and human resources strategy need to be considered in an integrated way.

In 2015, the FRC defined some key focus areas for their Corporate Governance team. One is culture: “how best to assess culture and practices and embed good corporate behaviour throughout companies.” Another, as mentioned, is succession planning (covered by its Discussion Paper). Also raised were Board composition and evaluation.

Including the above, here is a proposed scope for the NC/CC or HR Committee.



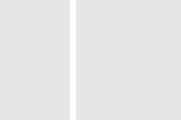
- 1 Establish strong HR governance as a strategic success factor** – the integrated HR Committee needs the weight suggested by the FRC
- 2 Define and live culture and values from the top** - with compliance oversight
- 3 Interact seamlessly** with all other Board committees
- 4 Set out the strategic HR agenda** in cooperation with the CEO/CHRO
- 5 Design a succession planning concept and implementation oversight** for the Board, the Non-Executive Board and additional key functions
- 6 Ensure an adequate Leadership development and Talent Management concept is in place** - with implementation oversight
- 7 Install Personal Governance standards and radar** for all key function holders
- 8 Install a sustainable, strategically-aligned performance measurement and management, compensation and incentive system**
- 9 Have oversight of the Employer Branding concept** (and its implementation)
- 10 Take the strategic lead on major change**, innovation and cultural development initiatives
- 11 Be a sparring partner for the Chairman, CEO and CHRO** in strategic human capital matters
- 12 Assure stakeholder management** related to strategic human resources topics
- 13 Assure an adequate social benefits framework**

Skills and Experience – the Right Composition

Preparing a gap analysis

The design of a Nominations Committee depends on a company’s context and the strategic challenges ahead. Its sparring ability can be gauged by comparing the skills and experience of the Executive Board with those of the Non-Executive Board.

A Frequently-occurring Gap Analysis of a Non-Executive and Executive Board

	Audit/Finance	Growth Markets	Risk Management	Marketing & Sales
NEB				
EB	✓	✓	✓	✓

	Corporate Development	Products & Innovation	Stakeholder Management	Human Capital Development
NEB				
EB	✓	✓	✓	✓

Driving a Needs Analysis

Every Board needs NC/CC know-how - regardless of its size, committee structure and ownership.



Illustrations by the Author

Today it's the norm (and demanded by most Corporate Governance codes) for the CFO to have robust sparring partners in the Audit Committee. The CHRO and CEO deserve their equivalents in the Nominations or HR Committee. Watchdogs designing and reviewing Corporate Governance codes should consider stating their expectations as to the scope and composition of HR Committees, just as they do for Audit Committees and (partly), for Remuneration Committees. An integrated NC/CC should include proven experience and specialist skills.

Strengths and weaknesses snapshot – an example

NC/CC	Evaluation		
	Room for Development	Good	Clear Strengths
CHRO Experience		x	
Talent Succession	x		
Organizational Development	x		
Compensation and Benefits			x
Strategic Recruiting	x		
NC/CC Experience	x		
CEO Experience			x
Labour Law Know-How			x

Of course, the number of specialists on the Non Executive Board will usually correspond to the size of a company (and its Board). Yet any well-designed NC/CC, (comprising at least three members), should be able to cover most relevant aspects. Knowledge and capability gaps can be bridged by hiring external expertise. As always, know-how and tone from the top are essential. The NC/CC Chairman must be independent and convincing, delivering experience in a number of the areas in the above snapshot.

CFOs and former Auditors with the right track record and a strategic mind-set are in demand for Audit Committees. Strong CHROs and other strategic Human Resources specialists should equally be on the shortlist for NC/CCs.

Board and NC leadership

The Chairperson of the Board, the Chairman of the NC/CC and the CEO are key to giving NC/CC topics the necessary weight.

A Board Chairperson who is an advocate of a high-performing NC/CC (and who ideally has a strong interest in strategic HR issues) can make a huge difference. And the skill, personality and mind-set of the NC/CC Chairperson are pivotal. He or she is equally in the spotlight for company culture and role model behaviour. So the NC/CC must be a role model for a range of areas: composition, nomination, engagement, transparency, performance measurement and management, ethics, general habits and communication.

Yet there is room for improvement. First, in objective-setting by the Chairperson and the Committee Chairpersons for individual non-executive director contribution. Secondly, in feedback and coaching from the Chairs.

Board evaluation

Good Governance requires regular reflection and review

If some Corporate Governance codes recommend this, the FRC is uncompromising, seeking “a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.”

Why? Top level governance body members have no tangible superiors, but they do need to meet stakeholder demands. Leadership and management principles and mechanisms may be strictly applied up to CEO-level, and that is where it tends to stop.

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The NC/CC, particularly its independent Chairperson, need to define an evaluation framework, agreeing on content, form, frequency and follow-up mechanisms with the rest of the Board. There is a tendency towards self-assessment (facilitated internally or by an external advisor) rather than a comprehensive approach. The NC/CC Chairperson must carefully consider the way forward. A comprehensive initial effort will likely be followed by systematic follow-ups and evaluation steps (depending on the development of the company and the Board).

Meanwhile, any check on Personal Governance is often missing. Yet it is vital. Good Corporate Governance depends upon the Board Members' Personal Governance. I define seven main areas⁶. Two very important ones are:

- Highly-developed self-reflection, self-evaluation and self-regulation skills
- Good reputation management – individually and as a collective, based upon the credible, ethically-responsible principles of the management team

Final comment

The FRC discussion paper on Succession Planning is a useful guide for NC/CCs (beyond succession planning!). After each section, the questions and issues it presents make for mandatory reading for all Non-Executive Board members – particularly directors involved with NC/CC issues. The FRC invites comments and I hope that many of you will share your views and experiences.

For far too long, the Nominations Committee has been the poorer cousin of the other committees. The demands from critical stakeholders to raise its status can no longer be ignored.

*An edited version of this article first appeared in [Ethical Boardroom Magazine](#), Winter Edition 2016
Please also see the Amrop article ["Raising the Bar for the Nominations Committee"](#)*

About Fredy Hausammann

Fredy joined Amrop as a Partner in 1998 and has previously held management positions with UBS in Zurich and London. Aside from his local role as Managing Partner Switzerland, he is a member of the Amrop Executive Board.

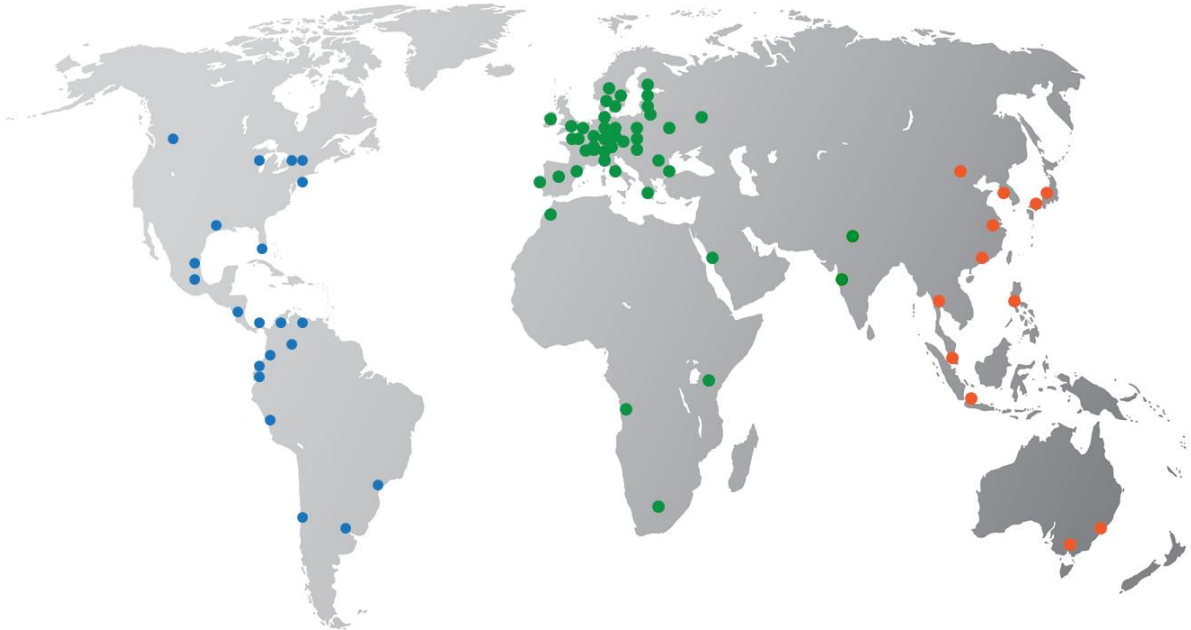
Fredy advises clients when it comes to executive and board searches across a number of industries. He holds a degree in Economics and Business Administration and a Masters degree in Management Coaching. He is the author of "Personal Governance" and handles management coaching and corporate governance advisory assignments.



⁶I, Life Plan and Goals. II, Ethical Behaviour. III, Self-Reflection. IV, Dealing with Stress. V, Personal Development. VI, Personal Interests and Passions. VII, Reputation.

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With 80 offices in 57 countries, Amrop provides services in Executive Search, Leadership Assessment and Board Consulting. It is the largest partnership of its kind. Amrop advises the world's most dynamic organizations on finding and positioning Leaders For What's Next: top talent, adept at working across borders in markets around the world.



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