Igor Šulík

Partner of Consulting Group AJG – Amrop Jenewein Group

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GLOBAL EXECUTIVE SEARCH

Board Review – a tool to achieve better Board performance

Various types of organizations deal with the issue of corporate governance. Some would argue that it is a topic mainly for lawyers; however, dealing with issues of governance is also a topic of top executive search consultancies that invest their time and build a valuable knowledge base in this area through their Board Services practices. We spoke about various issues related to the quality of corporate governance and Board performance with Igor Šulík, Partner of Consulting Group AJG – Amrop Jenewein Group, CEE Board Services Practice Group Leader within The Amrop Hever Group, and a member of the European Corporate Governance Institute.

We have noted the increased interest in discussions about corporate governance principles. In your opinion, why is this topic capturing so much interest recently?

Research shows that investors from all over the world indicate that they will pay large premiums for companies with effective corporate governance. One such study conducted by McKinsey found that institutional investors in emerging markets companies would be willing to pay as much as 30 percent more for shares in companies with good governance. Furthermore, it showed that companies with better corporate governance had higher price-to-book ratios, demonstrating that investors do indeed reward good governance.

The topic of governance is crucial for listed companies and we can imagine that you advise on corporate governance issues, especially to these types of companies. What is your experience in terms of demand for improved governance from other types of organizations?

It is not only the commercial sector and especially companies listed on a stock exchange that face the challenges of having good corporate governance. In today's situations, we face increased demand for improving and strengthening boards and their governance of state-owned and public enterprises, as well as not-for-profit organizations. I would say that, in general, owners and investors are becoming more and more aware of the importance of good governance and its impact on the overall performance of the company and there is a clear demand, even from family owned businesses, to implement good corporate governance in their companies.

Family owned businesses are not required to adhere to any codes of corporate governance. So why do the owners even bother thinking about this topic?

Many owners of such businesses are today actively involved in managing their business, and many of them would like to get involved in some other activity. Therefore, they are searching for a set up that would enable them to withdraw from managing the daily operation of their business and install trustworthy and responsible boards. In such situations, they look for mechanisms to have control over the board and company management and having standardized tools to intervene if they are not satisfied with the way the business is being directed and managed. They appreciate having on their side an experienced advisor that can lead them through the transition period.

From your experience, what would you say are the trends to creating boards that are accountable?

A positive trend that we can observe is that boards of companies are being created more professionally, with a focus on representation of interests of shareholders and other stakeholders respecting professionalism, ethics and diversity. Moreover, companies are aware that it is not only who serves on a board, but also how it is organized and how it conducts its business that is important. The issue of structure of boards that best reflects the market situation, corporate strategy, challenges that the company faces and the interests of stakeholders is growing in importance. Whereas a few years ago the issue of filling a board vacancy was merely finding a candidate that would meet the hard factor criteria, today these situations are being approached in a more complex way that take into account factors such as how the newly appointed board member will cooperate with the other members and how the board dynamics will change. To put it simply, creating and having a board that works as a team and meets the optimal competence matrix is the desire of all stakeholders.

The quality of board performance is always critical. How would you recommend measuring and consequently improving this?

Professionally conducted board reviews are one of the most effective tools in achieving this. Experienced advisors from top-level executive search consultancies are now often approached by companies to lead them through a board review. In some countries, codes of corporate governance require companies to regularly conduct such reviews. In central Europe, an increasing number of companies have discovered that these reviews are a tool that helps them appraise how the board has operated over a certain period of time, how individual board members have contributed to the overall performance of the board, and where there may be room for improvement and implementing desired changes in the functioning of the board.

But it can be argued that a board review is not the ultimate answer to all problems with governance and board performance.

I would say that if boards underestimate the process of self-reflection and improvement of their performance, they will become inflexible to reflect the needs of the company in a changing market situation. Professionalism in the boardroom and sufficient dynamics of the board, along with standardized corporate governance, can become a key competitive advantage for the company. Moreover, I would say that it is necessary to possess a clear definition of what individual members of the board will be responsible for. I fully agree with John Carver, a respected governance professional, who says that only as long as boards continue to be trapped in an inadequate design of their job, we cannot hope for improved governance.

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