



Nominations committees

Dona Roche-Tarry looks at the role of the nominations committee, a comparatively low profile committee but one whose decisions could hardly be more influential.

Influence is not always commensurate to profile. Just as some wealthy individuals are unknown to the general public, some key groupings within companies are almost invisible. The nominations committee does not attract the headlines that a remuneration committee or audit committee might. Yet this group selects the board members and often the CEO and the chairman. It determines the company's leadership – a role that could hardly be more influential.

So, how does the nominations committee function? Is it effective in selecting the right people for the boards of the 21st Century plc? How is it evolving in response to the financial crisis?

One reason for the comparatively low profile of the nominations committee is that, at many boards in the past, it served a largely rubber-stamping exercise, approving recommendations by the CEO or chairman. The days when recruitment to a board-level position was carried out on the golf course or over a gin & tonic are gone. A far more rigorous, professional approach is required, and the nominations committee is at the centre of this.

Rather than simply look for suitable 'heads', based on who might be available, in a passive way that might have served in the past, the more professional approach is for the nominations committee to be integrated into strategic planning. Boards are increasingly likely to engage in thorough assessments, or audits, and the frequency of such assessments has typically been increased to annually, rather than every two–three years. This is carried out with external specialist advice, and is aimed at ensuring that the board has the capability to execute strategy. From this foundation, the board and its advisers can identify gaps in capability, and say to the nominations committee: 'This is what we need' – with some depth and clarity.

In most of the companies in the UK the committee has the title of nominations and governance committee, which is a wider brief, and one that shows its link to developing and supporting company strategy. It includes not only the appropriate balance of experience and abilities on the board but also oversees the overall governance of the board. Size of the nominations committee ranges from three–five, depending on the size of the company.

In its deliberations, the nominations committee will also typically work with an external partner, such as CT Partners. Increasingly nowadays, HR directors will work closely with the nominations committee, and with the board chairman, especially on matters such as succession planning. They can bring their specialist expertise on the selection process to this crucial area. Commentators who note that the HR director is typically not on the board often see this as an indication of lack of influence. Our experience is that many HR directors do not see the need to be on the plc board, but nonetheless wield considerable influence – through

the nominations committee, the operating committee, and through the relationship with the chairman. An HR director may have a central role in company strategy, and in selecting the key executives to lead it, without having a place on the plc board.

Recruitment of non-executive directors as well as of the CEO demands rigour. In the past, some might have seen the post as involving little more than a good lunch every quarter and some informal chats about company direction. Not any more. Non-executive directors must demonstrate commitment as well as the right background and capability. These days a non-executive director is expected to prepare thoroughly for a board meeting, maybe putting aside as much as two days. The committee expects members to contribute fully, otherwise they are considered a waste of time.

The responsibility for preparing a job specification, and making any recommendation to the board, rests solely with the nominations committee. Typically, the nominations committee, working closely with the external adviser, will short-list five or six candidates, who may be called to interview. If the first choice gets the thumbs down then the next on the short list is called in. We will make contact one at a time rather than calling all five. It's a linear process: one call, one interview and then move to the next.

Prospective members must demonstrate that they won't treat the directorship as a hobby, or use it as a chance to brush up on skills they don't have. They have to be board-ready. I would say to non-executive directors: be self aware, be aware of the value you bring to the board and then think about the impact you could have with the firm over the next five years.

Normally the chairman of the board will also chair the nominations committee – another indication of its influence. For most appointments, the chairman will take the lead in the process. For the appointment of a board chairman, the deputy chairman takes the lead.

When hiring a CEO, it's more a case of compare and contrast. There could be 12–15 candidates, of whom about five might be interviewed. Style, leadership, personality, experience and cultural fit all have to be considered. Whoever is the contender, there has to be plenty of chemistry between the applicant and the committee. So to be chosen, there has to be this synergy, and this is tested for in the interviewing process. For the appointment of both board members and the CEO, the questions of 'chemistry' and cultural fit are increasingly likely to be taken seriously. The ability of a leadership team to gel with one another, and to communicate – both internally within the team, and externally to other stakeholders – is of similar importance to business acumen and technical knowledge.

We find that placements are becoming more successful as committees and applicants are carrying out more due diligence and taking greater care about applications generally.

Apart from their selection responsibilities, the nominations committee has to consider wider-ranging matters. As it becomes more integrated to company strategy, it should be continually asking itself: Where is the company going? Where is its expertise vis-a-vis its departments?

What about the make-up of the committee itself, what are the specific skills of its members and are they still useful?

The financial crisis has had a huge impact, and could even prove to be of some long-term benefit to the development of board expertise, and the professionalism of the nominations committee that shapes it. Recent events have provided the catalyst for greater professionalism. Large-scale institutional failures across the banking sector have focused the mind. Committees have to be more accountable, and more transparent, because their downside risk has become steeper. No enterprise wants to read about its failings on the front page of the Financial Times. The fundamental duty of the board, backed by company law, is the long-term stewardship of the company.

In terms of the composition of the board itself, there is greater heterogeneity. One development that we are beginning to note is the appointment of risk professionals to the board. Certainly, nominations committees have to find the broad range of capabilities suited to the task, and perhaps think outside the conventional CV. Risk managers, for fairly obvious reasons, are more likely to be considered as potential board material.

Board members, including non-executive directors, have to be competent across a range of factors, and have to work effectively together. The regular board audit, or assessment, helps this discipline.

The role of the nominations committee is therefore of strategic importance. It isn't easy, either. Changes to any committee or board can be tricky; there are often big egos involved, and clashes over strategic direction. In the US a CEO can influence a board greatly, and is more likely also to be chairman. In the UK, there is greater emphasis on separating the roles, backed by the codes of corporate governance. Sometimes, the CEO needs to be reminded that the nominations committee puts him or her forward, is the employer, and helps the CEO to run the company with the chairman.

The impact of the credit crunch has served to remind all those involved in corporate governance of fundamental importance of the board's core duties. In addition, we have seen a broader development towards the professionalism of board selection and performance, linked closely to company strategy and succession planning, and supported by external expertise.

All these developments underline the significance of the nominations committee, and are causing its role to move from the fringes towards the centre stage.

Dona Roche-Tarry is Managing Partner, European Board Services at executive search firm CTPartners.