

May 2003

Boardroom effectiveness

It may be perverse of me to say this but I can never watch Marlon Brando and Al Pacino in *The Godfather* without admiring the way they run their business.

Brando as Vito Corleone is the wise old patriarch with a sometimes impetuous and competitive team of lieutenants who he knows he must keep on board by winning and maintaining their loyalty.

Planning for succession is an issue, since some of the most experienced members of his team await the opportunity to run their own clan. Competing families in the New York crime syndicate probe constantly to lure away these members of the inner circle. The old Don accepts that double-dealing is a permanent feature of business among the syndicate, so there are few he trusts outside his family.

One of the most interesting characters in the story is the consigliere, who advises the don on the legal aspects of his business. The consigliere is a valued member of the team but he is dismissed when the family goes to war.

I could not help but be reminded of these arrangements at the Institute of Directors last week, listening to the views of Derek Higgs. Not many corporate figures could attract an audience of 200 of their peers at the end of a working day. Not in the UK, anyway, where company bosses do not command the same kind of attention as they get in the US. But there was a palpable sense of curiosity among the directors and would-be directors who packed the institute's London headquarters to listen to Mr Higgs.

It was as if they were trying to get the measure of the man who has done more to get under the skin of public company boardrooms than any of his three predecessors in the succession of UK-based reports on corporate governance.

Here is an individual who has prepared a report that, among its prime objectives, he says, is seeking to balance power within the boardroom "so as to reduce the chances of any individual or group of people within the board dominating its activities in its decision-making".

What would Don Corleone have made of that? I think he would have warmed to some of Mr Higgs' ideas, such as the senior independent director - a consigliere if you like, a valued but independent individual who is not one of the family.

The Don did not move without careful consideration of his options. He would not have been impressed by committee rule. But neither, apparently, is Mr Higgs. As he pointed out during the seminar, his report took him between eight and nine months to complete as an individual

(with the support, he says, of various friends and advisers), whereas an earlier corporate governance report, by a committee under Sir Ronnie Hempel, took 2 1/4 years.

This revelation says much about the contradictions of the Higgs report. Mr Higgs himself values autonomy and informal arrangements. Critics of his report fear that his guidelines will become formal rules of compliance under the combined code that sets

the standard of corporate governance among public companies in the UK.

Now it looks as if Mr Higgs will have to settle for some committee deliberation after all. Lobbying by company chairmen has succeeded in persuading Sir Bryan Nicholson, chairman of the Financial Reporting Council, whose job is to interpret the recommendations in the combined code, to delay what looked initially like a rubber-stamping exercise.

If there is to be some compromise, Mr Higgs will need to be a little more conciliatory than he was last week. He used the event, organised by Harvey Nash, the headhunter, and the Association of Chief Executives of Voluntary Organisations (ACEVO), to reinforce his findings that too many company chairmen were appointed informally.

"You could find a lot of 'c' words like cosy, clubby and casual and so on. Let's use 'informal' - but I think we can also use 'unprofessional'," he said. "It makes sense to try to describe the qualities of the individual that is being sought for an appointment to a boardroom rather more carefully and helpfully than a good chap or lady."

This is music to the ears of headhunters, who have everything to gain from the widespread adoption of more formal recruitment procedures for boardroom positions. RSM Robson Rhodes, the consultants, has estimated that compliance with the Higgs recommendations will cost companies about Pounds 200m. Most of this would be soaked up by salaries and by the recruitment and training of directors, it says.

On the other hand, companies could save money if tougher remuneration committees were successful in stemming the spiralling pay awards for top executives. Most commentators seem to agree that the pay of big company chief executives has got out of hand.

But few, other than Mr Higgs, have come up with constructive ideas for restraining corporate greed. Condemnation of pay awards alone has not worked.

The reality of boardroom recruitment is that there is a market for people and the recruiters and other advisers who work that market have become accustomed to using pay and various other incentives as the bait that will secure their target candidates.

The most important outcome of the Higgs' report is that it promises to expand, at least for non-executive directors, a market that has been too narrow in the past.

It is ridiculous to believe that there are too few suitable candidates for these jobs. One aim of last week's seminar was to put the case for greater recruitment of company non-executives from the not-for-profit sector. The same case could be put for women, members of the ethnic minorities and a greater use of internationally sourced appointments. Boards should expect their headhunters to be stretched in the way they go about their searches.

Broadening the candidate search is important and it is to be hoped that it goes beyond the "main chancers" who are using the debate on Higgs to thrust themselves forward for preferment.

Jostling for position is as common in business as it is in the underworld. But boards should look beyond the "joiners" and the networkers. Strong and sensible

independent advisers are out there. You just have to make them an offer they can't refuse.

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