



Heidrick & Struggles

Getting your Board for the next decade:
Building an effective and diverse Board

HEIDRICK & STRUGGLES

Initial Statements

- ▶ The world is changing at a faster pace
- ▶ Asian companies have the ambition to expand regionally and globally
- ▶ Companies must adapt to survive – the Darwinism principle
- ▶ Building a strong Board is key to ensuring growth, profitability and sustainability

Initial Statements

- ▶ The business environment is different in Asia compared to Europe or North America
- ▶ Family businesses represent the majority of companies in Asia
- ▶ Family businesses face specific governance issues

Initial Statements

All companies – public or private,
family-owned or not – MUST
assess their Board efficiency

Board Assessment - The necessary questions

- ▶ Is my Board aligned with my objectives and strategy ?

- ▶ Composition
 - Size
 - Diversity
 - Competencies

- ▶ Governance
 - Committee
 - Advisory Board

Board Efficiency

- ▶ Understand and define the company objectives and strategy, as well as their impact on the Board
- ▶ Define the ideal Board size and composition to drive the most efficient business impact
- ▶ Review existing Board performances and make the necessary adjustments to face the challenges of tomorrow

Board Efficiency

- ▶ Identifying required expertise and behaviours
- ▶ Evaluate Board effectiveness and performances
- ▶ Best Practice benchmarking
- ▶ Evaluate the relationship between the Chairman and CEO
- ▶ Define and implement new procedures and policies

Board Efficiency

1. The structure and composition of the Board

- ▶ Right balance of backgrounds, specific experience and behavioral competencies
- ▶ Ability to interpret management's analyses and challenge effectively
- ▶ The right skills and perspective to carry out the terms of reference for committees

2. The degree of engagement with and understanding of company issues

- ▶ Effectively engaged with company strategy
- ▶ 'Presiding over' a strategy they do not fully grasp
- ▶ Understand competitive threats and strategic risks

3. The quality of the Board's operating processes

- ▶ Do the mechanics of the board to support its mission

Board Efficiency

4. The relationship between the board and management

- ▶ Is this a productive partnership?

5. The quality of dialogue and interaction within the Board

- ▶ Are Board and committee meetings productive?
- ▶ Do issues get aired quickly and discussed openly?
- ▶ Do Board meetings lead to concrete decisions and actions taken by management?

6. The personal contribution of each Director

- ▶ Does each Director bring all that he or she can to the Board?
- ▶ Beyond attendance, do individual Directors demonstrate commitment to the Board and to the company through careful preparation, effective questioning in Board meetings and incisive recommendations?
- ▶ Are time commitments for individual Directors clearly understood?
- ▶ Are these commitments honored?

World Class Board

Foundation Board

Basic Compliance

- ▶ Satisfy core governance and compliance requirements
- ▶ Define and implement key Board processes

Developed Board

Forward Looking



Basic Compliance

- ▶ Board members competences and capabilities are aligned with requirements of the company's 10yrs objectives
- ▶ Core technical capabilities and experience defined and brought onto Board

Advanced Board

High Performance



Forward Looking



Basic Compliance

- ▶ High IQ and EQ NEDs, able to be forensic on arguments and engage positively with others
- ▶ Talent focused, mentor execs
- ▶ Global mindset & global networks
- ▶ Strong track record of growth
- ▶ Board skill gaps and succession regularly addressed

World-Class Board

Strategic Asset



High Performance



Forward Looking



Basic Compliance

- ▶ Works as a team
- ▶ World-class insights
- ▶ In-depth knowledge on best practice but relentless focus on tomorrow
- ▶ Candid about development needs
- ▶ Diversity of views
- ▶ Live the values

Process driven

Behaviour driven

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World Class Board

The most effective Boards put substantial energy into managing their effectiveness and added value, ensuring Directors can challenge management effectively.

An important aspect of first-rate Board reviews addresses the personal contribution of each Director, and the quality of dialogue and interaction within the Board.

Example: A recent review in a global high-technology company showed that while some Board members had a clear view of how the company sought to win in its key markets, others – especially those who had come from less technical sectors – were confused about this.

The review led to the Board establishing a strategy away day, and to preparing special briefings for members who needed more in-depth knowledge in the sector.

Example: A recent review in a global energy company showed that Directors tended to make comments based on their own perspective rather than building on other's comments, resulting in a somewhat disjointed debate and suboptimal decision-making.

We observed that although the consensual and 'loose' approach to facilitation was necessary immediately after a post-merger situation to create genuine team dynamics, a more directive and controlling approach to facilitation was now more appropriate.

- ▶ Actionable recommendations may include recommendations for new Board member profiles, individual developmental plans for existing Board members, and changes to the governance structure and processes.
- ▶ Additionally, we can conduct individual coaching sessions with Board members as necessary.

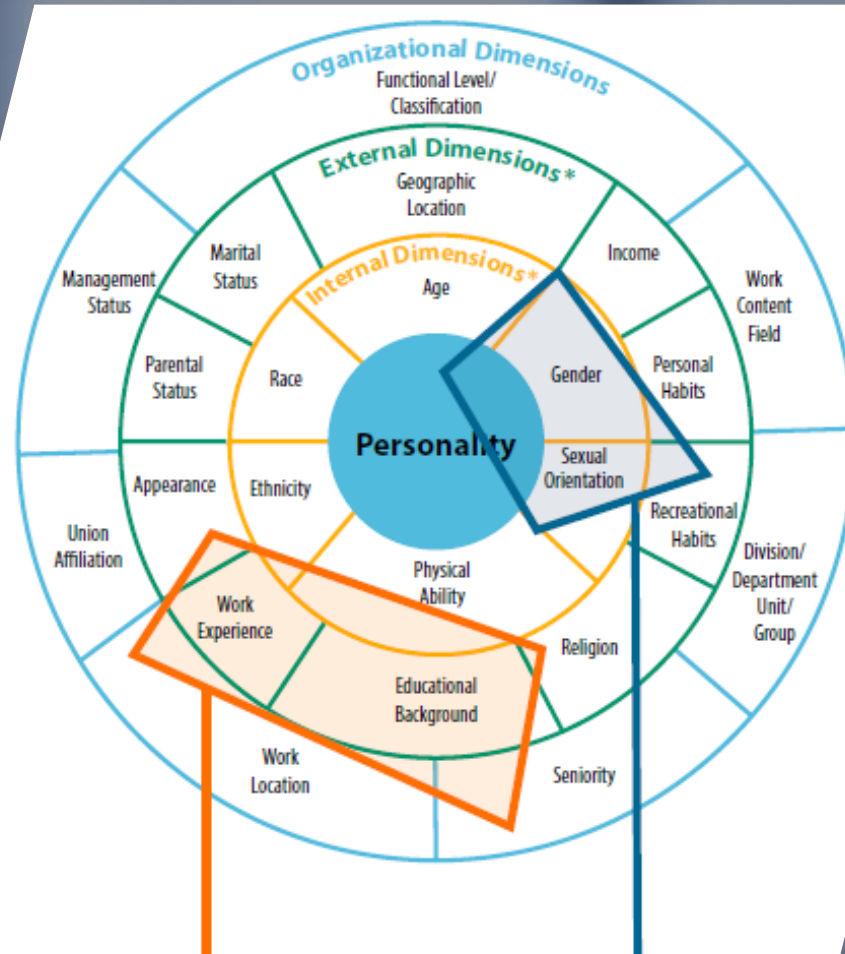
Diversity

- ▶ What is Diversity?
- ▶ Why Diversity?

Diversity

Diversity is much more than gender,
work experience or educational
background

Diversity



Where H&S thinks these diversity aspects contribute greater value on building diverse thinking patterns and opinions

Where the usual aspects of diversity to be discussed

Diversity

The power of diversity lies in taking a broader view that balances the internal and the external environments in assessing potential business issues and solve them more efficiently

A Diverse Board

- ▶ Helps companies deliver better value to all their stakeholders, increase risk analysis capacity, improve the decision-making process and ultimately increase profit and sustainability
- ▶ Moves its role from regulatory gatekeeper to strategic advisor
- ▶ Is a necessary evolution since the world is transforming at a very fast pace

Diversity – Family owned businesses

Diversity is more complex to achieve in family-owned businesses.

Family Owned Company: The specifics

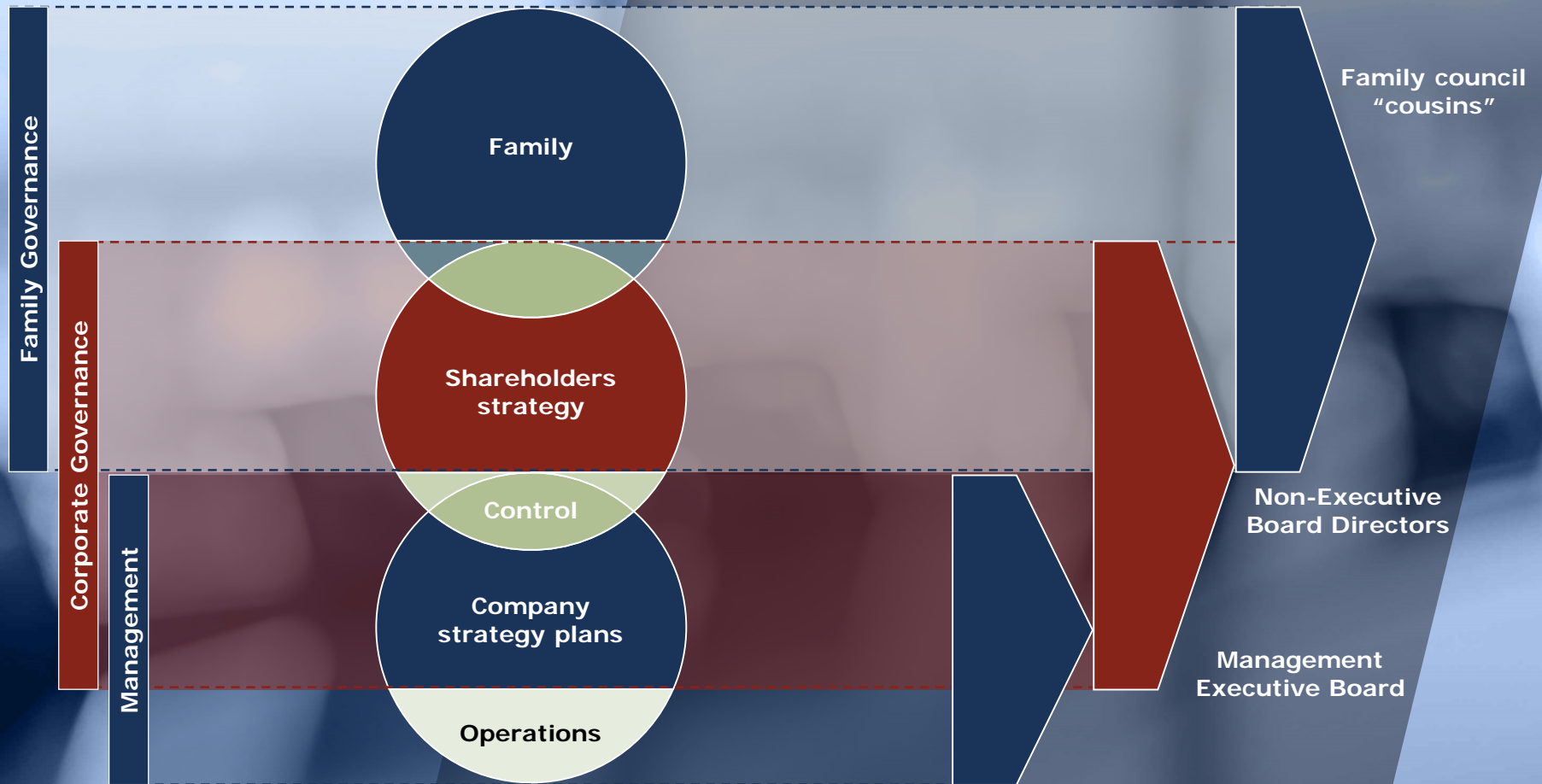
Corporate Governance Codes were designed to solve issues specific to publicly held companies.

Family businesses face governance challenges too...

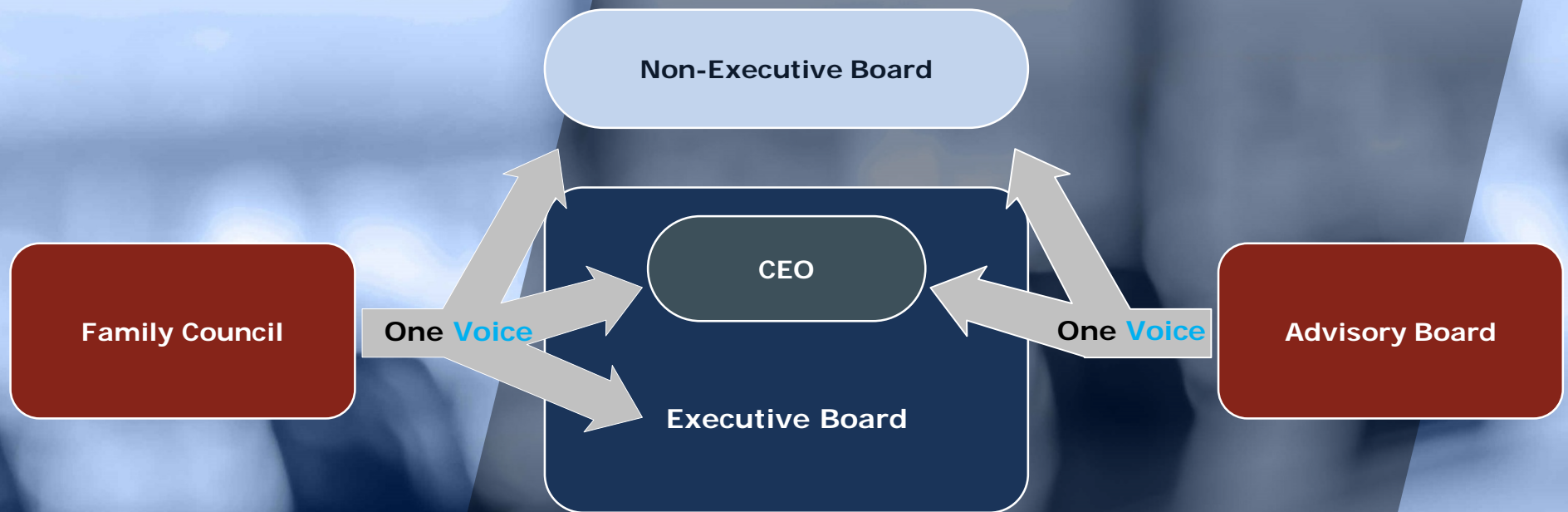


Corporate Governance as a "Family Affair"

Family businesses face specific governance issues, calling for a specific governance structure



Governance structure in family businesses



A formal structure to legitimize the governance structure

Role of Chair

The Chairs have a key role to play in building and running an efficient and diverse Board:

- ▶ Define the strategic objectives of the company and how diversity should fit with the implications
- ▶ Must assess the board, and analyse all the gaps affecting performance and the capacity to assess risks
- ▶ Implement the board transformation – to avoid culture dilution and tension, this should not be done hastily

Conclusion

Companies should move beyond compliance to effectiveness and performance. This should be done by improving diversity and competencies, and influencing behavior, in order to build an efficient and sustainable board.

Status quo is no longer an alternative

CEO succession

In order to prepare for orderly and emergency CEO succession events, a Board must continually address four fundamental topics and be ready to move forward with, and defend their decision regarding the next CEO to lead the company.

Fundamentals of CEO Succession

Company Strategy

Where is the company today?
Where will it be in the future?
Is the Board aligned around the strategy and objectives?

What external talent is available?
What are the risks of selecting an outsider?
Is the Board familiar with the external talent?

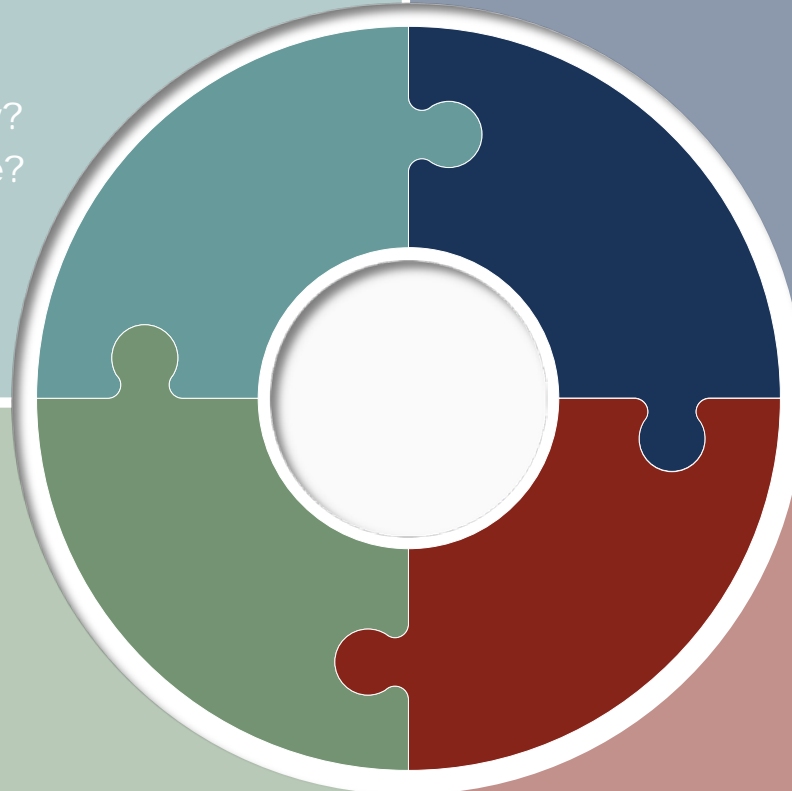
External Market Analysis

Future CEO Profile

What are the critical CEO experiences?
What are the critical CEO leadership criteria?
Is the Board aligned around the future CEO profile?

Which executives are interested and ready?
What are the risks of selecting an insider?
Is the Board confident in the internal talent to lead?

Internal Candidate Assessment



Rule of Thumb:

External candidates should be 1.5x better than the internal candidates to warrant the increased risk

Internal Candidate Considerations

Benefits

- ▶ Low risk of culture rejection
- ▶ Proven ability to operate effectively in the company's culture
- ▶ Management tends to have a deeper understanding of candidate's abilities
- ▶ Already knowledgeable about the company
- ▶ Continuity with external relationships (customers, analysts, investors, media)

Concerns

- ▶ If the company is in need of a transformation, internal candidates may be closely linked to legacy strategy and culture
- ▶ Lower likelihood internal candidates will have prior similar managerial experience
- ▶ May create tension among 'ex-peers'

Rule of Thumb:

External candidates should be 1.5x better than the internal candidates to warrant the increased risk

External Candidate Considerations

Benefits

- ▶ Frequently viewed as being more credible in leading new businesses and/or setting new strategies
- ▶ Will view the businesses (strategy, opportunities, talent, etc.) through a fresh lens, and can bring best practices forward
- ▶ Typically has a proven track record of successfully managing comparable activity

Concerns

- ▶ Outside managers' integration in a new, strong culture is never straightforward
- ▶ Risk of turnover amongst executives not selected for the role
- ▶ Greater learning curve concerning businesses dynamics and challenges