THE NETWORK OF LEADERS
CRITICALEYE

AIM CEO Breakfast – February 2010

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Chair
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Contents

A group of experienced executives and non-executive directors meet regularly to discuss issues pertinent to running a public company quoted on AIM. This month the group discussed the importance of:

- Board composition – evolution of the board
- Risk appetite
- Options

Board composition

Finding the ideal balance for the board, with the perfect mix of skills, experience and personalities is often difficult. Many companies start out with a board that works in the start-up phase, but as the company evolves and/or circumstances change, the board needs to analyse constantly how it is adding value for the business.

"My company has survived the downturn," said one participant. "But now we are moving forward again it has become clear that our board may lack certain key skills and competencies. How do you address the evolution of the board? How do you make sure you have the perfect board at all times?"

One NED contended that you should not over populate the board. The easier boards to manage are those that have three non-execs and two executives. However all participants asserted that it is vital for the CEO to have a sounding board, which inevitably means the chairman. The CEO/chairman relationship is crucial for the health of the company. It is also important to have NEDs on the board that understand the business and industry, and can express differing viewpoints and challenge the views of management.

All participants agreed that it is vital to recognise when NEDs have stopped adding value. "This needs to be done through a rigorous appraisal programme carried out at least once a year," asserted one NED participant. "It should fall on the chairman to lead the process, not the CEO."

Additionally, making wholesale changes to the board is not recommended. This can lead to a severe disruption and threaten continuity. The participants all agreed that if change is required it is better to make incremental moves to get the right balance of skills and experience in place.

Board operating rhythm

There followed a discussion around the optimal operating rhythm for the board. Although the participants agreed that some companies do operate in somewhat of an “ad hoc” manner, the best practise is to have a structured approach, with a mix of regular meetings and conference calls, that gives the board members ample opportunity to understand the operating performance of the company, have input into the strategic direction of the company, challenge the status quo, as well as executing the formal responsibilities associated with the various committees that have to meet during the financial year.

“You need to allocate time to talk about strategy and to assess how the board itself is performing,” asserted one participant.

Risk appetite

Following a very uncertain period most companies have taken appropriate action to cut costs, preserve cash and improve their balance sheets. No matter how well a company is performing it has been the right time to take stock. But now it is equally important to examine the way forward, which may require certain strategic adjustments. Whether it is appropriate to pursue aggressive growth strategies will be dependant on the exact situation of each company. However, the group agreed that maintaining shareholder confidence and support would be critical, particularly if additional capital is required to fund growth initiatives (eg, acquisitions).

Options

Options and other long-term incentive plans were a particular concern for the group. The participants felt that almost all executives had become too accustomed to being over-rewarded for poor performance.

Before the onset of the current recession, most companies had implemented significant long-term incentive plans (LTIPs), along with salary and bonus packages for key executives. But with many option programmes likely to be under water, the board and shareholders are rightly concerned about the best way to incentivise management and staff going forward. Although, most participants agreed that new, re-priced option programmes had a role to play, they also agreed that now was the time to revisit the whole reward structure within the company, to make sure it was aligned with long-term goals and objectives, as well as the retention of key staff.

Interestingly, transitioning executives reported that salaries and bonus structures are around 20 per cent lower than two years ago. This is a clear indication that remuneration packages have re-aligned to market reality and that good quality people will now be available at reasonable prices. This leaves those companies seeking to hire quality executives in a much stronger position than they have been for a long time. All the participants agreed that the board remuneration committee had a significant role to play in terms of ensuring engagement of executives and senior management.