

Boards

Nominations  
Committees  
A User Guide

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**Amrop**

Leaders For What's Next

# Nominations Committees: a User Guide

It has become the norm for Boards to plough time and resources into remuneration and its spin-offs. I believe that the time has now come to deliberately engineer strategic, integrated human capital think tanks in the form of cutting-edge Nominations Committees.

What challenges do Nominations Committees face? Where do the opportunities lie?

## Where the Nominations Task is Housed – Compensation, Nominations and HR Committees

“Structure follows strategy” (organizational purpose and goals) including the design of Board Committees.

I propose an integrated Corporate Governance approach,<sup>1</sup> continuing a trend for Human Resources Committees to be increasingly responsible for nomination, succession planning, and compensation. This, for Non-Executive and Executive Boards and beyond, to key function holders.

So if we're looking into ways of improving the standing of the Nominations Committee then an integrated HR Committee is one answer, garnering more attention, a higher profile, and ultimately doing a better job.

For smaller companies (thus, smaller Boards), how many committees make sense? Should NC/CC tasks be a collective Board mandate? If this makes sense for some areas (CEO nomination, overall HR strategy, the basics of the compensation scheme), small Boards also need the relevant skills and experience. We will come to the scope and composition of the NC/CC later.

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<sup>1</sup> Prof. Martin Hilb – Integrierte CG



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Too much, in my view, with limited value for clients, employees, or sustainable organizational development.

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### NC/CC Focus To Date and Still Today...

Audit and Remuneration Committees have typically been the focus of governance reforms, a channel for energy and attention due to the problems created by the 2008 financial crisis and the questionable Personal Governance<sup>2</sup> of some senior executives.

Investors and clients, outraged by compensation excesses, forced corporates to assess management more rigorously - to pay primarily for performance.

NC/CCs, meanwhile, have invested time, money, and energy in investor dialogue, designing and implementing multiple variants of pay-for-performance schemes, trying to balance management and stakeholder demands. In my view, too much energy is being spent here, with limited value for clients, employees, or sustainable organizational development.

Meanwhile, more important strategic HR topics have been neglected by Boards and left to executive management. It is time to finally define the role of Nominations Committees, to properly staff them, and smartly wire NC activities into corporate strategy and financial management.

Five years ago, the picture was rather gloomy. In 2014 a Grant Thornton study revealed that NCs met fewer times annually than other committees did – with an inferior quality of disclosure. A January 2015 FRC report on Stewardship and Corporate Governance signaled room for improvement in the provision of information on the Board of Directors (beyond biographies). It called for transparent reporting on why an individual gets elected, and what s/he brings to the boardroom table; skills, experience, know-how and independence, and an account of his or her contribution to Board effectiveness.

But things are slowly improving. The UK Corporate Governance Code, which still takes a lead in governance worldwide, was revised by the FRC in July 2018.

The revisions reflect some of the calls for change. Applying for periods starting on or after 1 January 2019, the new Code contains new Guidance on Board Effectiveness. This further crystallizes and strengthens the role of the Nominations Committee:

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<sup>2</sup> The 7 building blocks of *Personal Governance* form a pathway for managers to create good *Corporate Governance and leadership*. See Amrop: 'Personal Governance, The Cornerstone of Corporate Governance and Leadership', based on 'Personal Governance als unverzichtbarer Teil der Corporate Governance und Unternehmensführung' – Fredy Hausammann, (Haupt Berne, 2007)

“The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. The chair of the board should not chair the committee when it is dealing with the appointment of their successor.

Furthermore the Code stipulates that the work of the nomination committee should be set out in the annual report in terms of its appointment process, its approach to succession planning, and how these support the development of a diverse pipeline, how board evaluation has been conducted and its influence on board composition. Moreover, it emphasizes a strategically-guided policy on diversity and inclusion, extending to the gender balance of those in the senior management team and their direct reports.”

As for all governance bodies, the composition of Nominations Committees is crucial. Yet given the focus on compensation, a proper NC may be absent, or under-equipped. To name just two issues, stronger Nominations Committees could have driven better, faster progress in diversity, and digital-ready Boards.

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### Stakeholder Expectations

Investors, shareholder representatives, staff and other stakeholders have shifted attention to Nominations Committees.

A 2014 PwC study (*Investor perspectives: How investors are shaping boards today... and into the future*), highlighted the following as top of mind for large US investors, and areas of dissatisfaction (with high development expectations):

- Assessing director performance (61% satisfaction with current status)
- Preparing for executive succession (35% satisfaction with current status)
- Evaluating management performance (26% satisfaction with current status)

Investors were asked which areas corporate Boards should prioritize for the coming years. One third of the top twelve were NC/CC topics: executive performance metrics, executive compensation, succession planning and talent management.

In my experience, the PwC findings are still relevant – and are not limited to the US.

## The Primary Tasks For Tomorrow

Business Strategy, Financial Management, Company culture and human resources strategy need to be considered in an integrated way.

In 2015, the FRC defined some key focus areas for their Corporate Governance team. One is culture: “how best to assess culture and practices and embed good corporate behaviour throughout companies.” Another, as mentioned, is succession planning (covered by its Discussion Paper). Also raised were Board composition and evaluation.

Including the above, here is a proposed scope for the NC/CC or HR Committee.

- 1 **Establish strong HR governance as a strategic success factor** – the integrated HR Committee needs the weight suggested by the FRC
- 2 **Define and live culture and values from the top** - with compliance oversight
- 3 **Interact seamlessly** with all other Board committees
- 4 **Set out the strategic HR agenda** in cooperation with the CEO/CHRO
- 5 **Design a succession planning concept and implementation oversight** for the Board, the Non-Executive Board and additional key functions
- 6 **Ensure an adequate Leadership development and Talent Management concept is in place** - with implementation oversight
- 7 **Install Personal Governance standards and radar** for all key function holders
- 8 **Install a sustainable, strategically-aligned performance measurement and management, compensation and incentive system**
- 9 **Have oversight of the Employer Branding concept** (and its implementation)
- 10 **Take the strategic lead on major change**, innovation and cultural development initiatives
- 11 **Be a sparring partner for the Chairman, CEO and CHRO** in strategic human capital matters
- 12 **Assure stakeholder management** related to strategic human resources topics
- 13 **Assure an adequate social benefits framework**

### Skills and Experience – the Right Composition

#### Preparing a gap analysis

The design of a Nominations Committee depends on a company’s context and the strategic challenges ahead. Its sparring ability can be gauged by comparing the skills and experience of the Executive Board with those of the Non-Executive Board.

#### A Frequently-occurring Gap Analysis of a Non-Executive and Executive Board

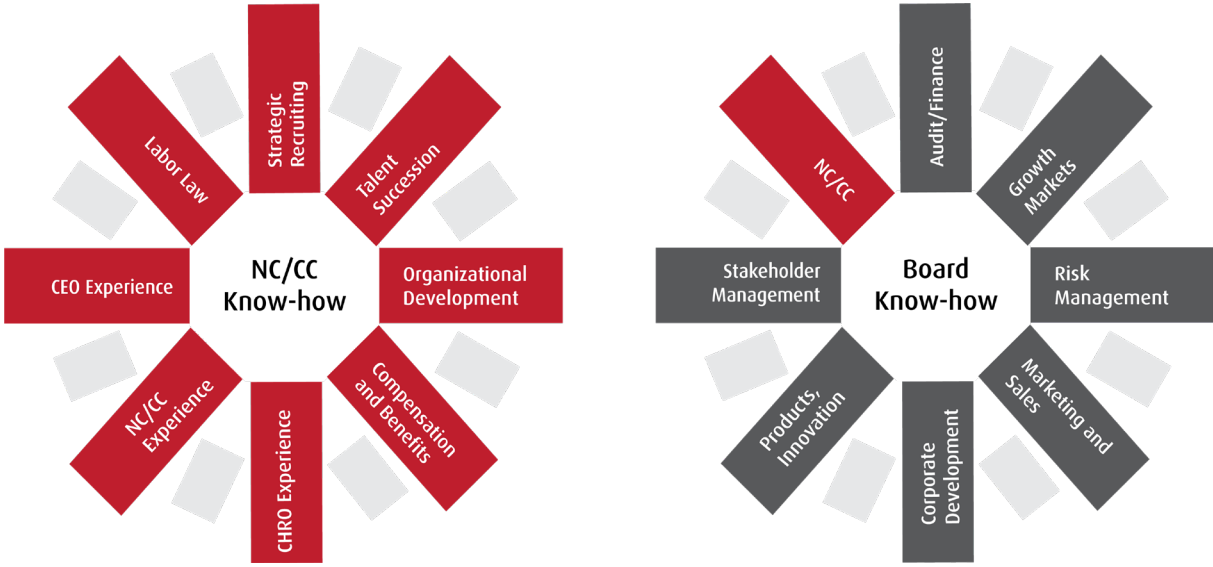
	Audit/Finance	Growth Markets	Risk Management	Marketing & Sales
NEB				
EB	✓	✓	✓	✓

	Corporate Development	Products & Innovation	Stakeholder Management	Human Capital Development
NEB				
EB	✓	✓	✓	✓

**Driving a Needs Analysis**

Every Board needs NC/CC know-how - regardless of its size, committee structure and ownership.



*Illustrations by the Author*

Today it’s the norm (and demanded by most Corporate Governance codes) for the CFO to have robust sparring partners in the Audit Committee. The CHRO and CEO deserve their equivalents in the Nominations or HR Committee. Watchdogs designing and reviewing Corporate Governance codes should consider stating their expectations as to the scope and composition of HR Committees, just as they do for Audit Committees and (partly), for Remuneration Committees. An integrated NC/CC should include proven experience and specialist skills.

**Strengths and weaknesses snapshot – an example**

NC/CC	Evaluation		
	Room for Development	Good	Clear Strengths
CHRO Experience		X	
Talent Succession	X		
Organizational Development	X		
Compensation and Benefits			X
Strategic Recruiting	X		
NC/CC Experience	X		
CEO Experience			X
Labour Law Know-How			X



Of course, the number of specialists on the Non Executive Board will usually correspond to the size of a company (and its Board). Yet any well-designed NC/CC, (comprising at least three members), should be able to cover most relevant aspects. Knowledge and capability gaps can be bridged by hiring external expertise. As always, know-how and tone from the top are essential. The NC/CC Chairman must be independent and convincing, delivering experience in a number of the areas in the above snapshot.

CFOs and former Auditors with the right track record and a strategic mind-set are in demand for Audit Committees. Strong CHROs and other strategic Human Resources specialists should equally be on the shortlist for NC/CCs.

### **Board and NC leadership**

The Chairperson of the Board, the Chairman of the NC/CC and the CEO are key to giving NC/CC topics the necessary weight.

A Board Chairperson who is an advocate of a high-performing NC/CC (and who ideally has a strong interest in strategic HR issues) can make a huge difference. And the skill, personality and mind-set of the NC/CC Chairperson are pivotal. He or she is equally in the spotlight for company culture and role model behaviour. So the NC/CC must be a role model for a range of areas: composition, nomination, engagement, transparency, performance measurement and management, ethics, general habits and communication.

Yet there is room for improvement. First, in objective-setting by the Chairperson and the Committee Chairpersons for individual non-executive director contribution. Secondly, in feedback and coaching from the Chairs.

### **Board evaluation**

Good Governance requires regular reflection and review

If some Corporate Governance Codes recommend this, the FRC 2018 Code is uncompromising, seeking “a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. The chair should consider having a regular externally facilitated board evaluation”.

Why? Top level governance body members have no tangible superiors, but they do need to meet stakeholder demands. Leadership and

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management principles and mechanisms may be strictly applied up to CEO-level, and that is where it tends to stop.

The NC/CC, particularly its independent Chairperson, need to define an evaluation framework, agreeing on content, form, frequency and follow-up mechanisms with the rest of the Board. There is a tendency towards self-assessment (facilitated internally or by an external advisor) rather than a comprehensive approach. The NC/CC Chairperson must carefully consider the way forward. A comprehensive initial effort will likely be followed by systematic follow-ups and evaluation steps (depending on the development of the company and the Board).

Meanwhile, any check on Personal Governance is often missing. Yet it is vital. Good Corporate Governance depends upon the Board Members' Personal Governance. I define seven main areas<sup>3</sup>. Two very important ones are:

- Highly-developed self-reflection, self-evaluation and self-regulation skills
- Good reputation management – individually and as a collective, based upon the credible, ethically-responsible principles of the management team

### Final comment

For far too long, the Nominations Committee has been the poorer cousin of the other committees. Whilst there is progress in raising its status, it's critical that this continues to be consolidated.

*A first edition of this article appeared in Ethical Boardroom Magazine*

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<sup>3</sup> I, Life Plan and Goals. II, Ethical Behaviour. III, Self-Reflection. IV, Dealing with Stress. V, Personal Development. VI, Personal Interests and Passions. VII, Reputation.



## About Amrop

With over 70 offices worldwide, Amrop is a trusted advisor in Executive Search, Board and Leadership Services. Amrop advises the world's most dynamic organizations on finding and positioning Leaders For What's Next: top talent, adept at working across borders in markets around the world.



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