

YOUR NEW BOARD MEMBER

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EVER WONDERED WHY some politically connected folks adorn the boards of reputed organisations? This is true not only at public sector enterprises (and even Reserve Bank of India), but also at many private conglomerates. While the reasons vary from purely personal to lucrative business deals, some blame must also go to weak investor activism and the main topic of this article – inadequate vetting of board candidates.

Every now and then a term pops up on the popular radar and is immediately adopted by all just because it seems so apt. The final stage of this is to become a cliché – do you really need to see the phrases “paradigm shift”, “outliers” or “tipping point” ever again? – but before that point, such terms serve a useful purpose. While the concept of giving someone a more intense than usual going over is controversial in its original context, extreme vetting should become the standard when it comes to board recruiting. But why, and how, should one proceed?

There are two drivers for extreme vetting of board candidates today in the developed world, both prompted by the rise of activist investors. When a company faces a proxy fight from investors seeking to add their own outside candidates to the board, the company will certainly give them extra close review. This could be driven by a search for disqualifiers, and makes good governance sense. Second, boards should nevertheless vet their own internal prospects more carefully. Those hostile activists are sure to be looking into the directors’ vitae for any closeted skeletons and so the smart board should uncover any such tidbits first.

In the USA, majority of extreme vetting candidates belong to activist investors and it can be the same in here too soon if there are more Alembic-like small investors and Mohandas Pais (Pai was an activist investor in Infosys who was invited to join the company as an employee and retired as a board member there). Extreme boardroom vetting should start with the résumé of the candidate. Take a close look at how the prospect presents his or her case, with a critical eye. People are known to fake qualifications, experience, and make tall claims on achievements.



Ralph Ward



M. Muneer

Pay critical attention to the information on the candidate’s board positions in the past. Will board members who served with the candidate or the CEOs offer background on his tenure? Probe the company activities while the prospect was on board, including his financial balance sheet if any. Were there any failed acquisitions or blotched expansion? Did those boards use a scorecard for aligning with the company strategy? Were there any legal or financial setbacks then?

Professional backgrounds aside, it has become acceptable to dig into their personal backgrounds including their social media personae. Arrest records? Drunk driving? Illicit affairs? Assume that the other side will be sifting through the records on your own board nominees for such dirt too. We have seen in many cases, boards are more forgiving when it comes to their nominees, and not the activist nominees. We have heard from “it-was-a-minor-sexual-harassment-charge” to “bribery-charges-were-never-proven”. Remember, if you wink at tough standards for your own board nominees, expect activists to squawk should you try imposing such rules for them.

Finally, don’t forget that dirty laundry on a board prospect can prove a problem even if you and an activist agree on a nominee. We have seen cases where a company and activist were negotiating right up until the annual meeting, at which point the company blinked and accepted the investor’s nominee. Crisis averted? Not if you waive the nominee vetting. You just may end up with someone who doesn’t play well with others or has skeletons that won’t surface until too late. **BW**

Ward is a board governance specialist and Muneer is the co-founder and chief evangelist of Medici Institute, a non-profit organisation