

Rebuilding trust in the boardroom

How boards can restore confidence after the crisis.

BY BONNIE GWIN

BOARDROOMS across the country are, to a certain extent, still reeling from the shocks to the system that began more than two years ago. Beyond the business and financial concerns that continue to keep companies wading in slow motion toward recovery, corporations are grappling with what is a “fuzzier” and perhaps even more complicated challenge: the issue of restoring trust.

The image of irresponsible corporate management — an idea advanced by some regulators, the media, and others — has elevated the importance of trust and trustworthy governance to a high priority in the boardroom.

Increasingly we are seeing that boards are placing a greater emphasis on characteristics related to trust when looking at their governance processes. Companies who have been in the media spotlight, gone through bankruptcy, or experienced some other seismic event are particularly interested in finding ways to improve the quality and performance of their boards, as well as rebuilding stakeholder trust and confidence. In fact, companies across all industries have taken on rebuilding trust as a major objective. They see this as not only the “right” thing to do — a way to live up to their corporate values — but also as a way to improve their board functionality and effectiveness. This is true not just in the U.S. but across global boardrooms.

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We often hear this Litmus test in talking to directors about their boardroom discussions: If your deliberations and governance processes were laid bare on the front page of any major publication, would you be proud and would you be comfortable with how you were portrayed? This question is well worth consideration by boards today. How can

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companies build boards that will restore stakeholder confidence? Moreover, how can companies ensure that the *process* of putting together the board team does, in itself, evoke confidence and trust?

Qualities in demand in the boardroom

Examining the attributes that boards are prioritizing in recruiting new members, we are seeing a shift. The “hard” skills in demand today are relatively straightforward, jibing with new market realities and company situations, such as experience in Asian markets, emerging from deep financial crises, or major restructuring. But becoming just as important as these hard skills are the so-called “softer” characteristics being

sought in new directors. While traits such as intellectual bandwidth — the ability to synthesize many different business challenges — remain a top priority, issues around character and quality of judgment have emerged as even more important recently. These include:

- **Integrity** — Boards are placing integrity at the top of their list as they examine potential director candidates. With increased scrutiny of board member selection by a much wider group of stakeholders than in the past, this quality and a matching personal and professional track record has become one of the first topics to be discussed in recruiting board members.

- **Courage** — The willingness to stand up for one’s beliefs and take an opposing view, without becoming strident or inflexible, has become an even more important asset. Boards do not want to be seen as rubber-stamping management decisions, and value members who are comfortable and tough in challenging the status quo as needed.

- **Candor** — Boards are seeking directors who demonstrate an ability to speak frankly not only to management but also to each other. While consensus is important, the process for arriving there must be robust and given adequate discussion and debate by the full board.

How to build a trusted board

While trust has clearly become important as a corporate objective, there are disagreements among directors today as

to how to truly achieve this. In a recent Heidrick & Struggles and WomenCorporateDirectors survey of nearly 400 corporate directors, we asked respondents to identify which factors would be effective in rebuilding trust in corporate boards. Male and female board members responded similarly on many issues, yet had some strikingly different responses on this topic.

While both men and women directors agreed that having an independent chairman would be effective, women seemed to have much greater faith than men that increased boardroom diversity (65% of women vs. 35% of men), new regulations regarding executive compensation (45% vs. 22%) and proxy access (38% vs. 17%), and, especially, enhanced risk management systems (40% vs. 1%) would help restore trust.

The gaps we saw in our survey illustrate the difficulty in pinpointing the exact path boards should take to restore trust among their stakeholders. Certain best practices, however, are emerging in boards' recruiting and assessment processes — practices that are aimed toward setting boards on that path:

1. An independent recruitment process. Whether this is done by the board itself or through a search firm, it is critical that boards conduct a truly transparent and independent search process for new directors. This should not be steered solely by the CEO or by a director eager to seat a friend, but instead should be a collaborative process that takes recommendations from all quarters. While the CEO should certainly be involved, he or she should not be the only screen; nor should the process be opaque to those on the board outside the nominating/governance committee.

2. Going “beyond the board’s Rolodex.” A diversity of perspectives in the boardroom can help boards dispel the idea that a “cozy” mindset — one that



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has taken some of the blame for the current financial situation — is driving the discussion. Having diverse members on the nominating committee and the leadership team helps foster greater candidate diversity. Beyond demographic diversity, best-practice boards are also implementing a process that goes “beyond the board’s Rolodex” — insisting that search firms think creatively about candidates and what backgrounds they can bring to the table. And once these diverse directors join the board, an equally important step is embracing their voices; ensuring there is a good mentoring and

on-boarding process and encouraging the newest directors to engage right away in the boardroom.

3. Candidly assessing performance. Following an independent and open recruiting process and building a diverse board goes a long way toward creating the right elements for a board that inspires trust, but the work doesn’t end there. Candid performance assessments of the board members, whether done internally or externally, help maintain accountability and drive the highest possible level of performance among directors. Best practice today means conducting rigorous assessments, not just compliance-based check-the-boxes reviews, once a year. This kind of assessment process provides ongoing developmental feedback to the directors in the same way that they demand CEOs assess and develop their own leadership teams. This exercise demonstrates to the CEO that the board “walks the talk.”

The right combination

In an era of heightened scrutiny and focus on corporate performance, utilizing best practice recruiting and assessment processes can help boards create an environment that evokes trust. Qualities that have always been valued in board service — including integrity and independent thinking — have taken on a new level of importance, and candidates that demonstrate these traits on top of their “hard” qualifications can find themselves in high demand for board service.

As boards examine their recruiting efforts, those who strive to lead in governance best practice are focused on those candidates who can bring these values to the table and are using best-in-class processes to ensure that they are restoring trust in the boardroom. ■

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