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BUILDING A BOARD

25 July 1990

Sir Adrian Cadbury
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Dear Adrian,

I wonder if I could solicit your help on a note Bob Monks has asked me to produce. He is still anxious to set up a PRO NED-type operation in the USA and wants to be able to give chairmen sound advice about the selection process. I have reread your excellent book and plagiarised it shamelessly (a fact which I shall surely acknowledge to Bob). At the same time I have tried to draw on my PRO NED experience.

I would be very grateful indeed for any comments you had.

With kindest regards.

*Yours ever
J Charkham*

BUILDING THE BEST BOARD

A Guide for Chairmen and CEOs

INTRODUCTION

Boards only perform well if their structure and dynamics are right for the personalities of the day and the objectives of the business. This means that those engaged in the process of selection must ask themselves a series of questions to clarify the qualities and experience they need in individual candidates and to determine the size and structure of the board.

Before setting about making appointments, everyone concerned should have a clear picture of what it is the board should achieve. They should ask themselves whether their board will be able to:

- (a) set the company's aims and objectives;
- (b) agree the operating plans and targets which turn strategy into action;
- (c) contest the most important executive appointments (including that of the chief executive) to make sure that crucial parts are filled by the right people;
- (d) be the primary force "pressing the corporation to the realization of its opportunities and the fulfilment of its obligations to its shareholders, customers, employees and the community in which it operates";
- (e) hold the right balance between the interest of shareholders and the aims of management.

With these thoughts in mind the way is open to consider in sequence all the aspects of making an appointment beginning with size.

SIZE

Business is facilitated if boards are not too big. The ideal size for medium or large companies is probably 7-15. Is our board the right size or should we be planning how to reduce (or increase) it, even if the process takes some time?

BALANCE

The balance between officers of the company and outside directors should ensure that, considering the personalities involved, the outside directors have the practical capacity to control the CEO should the circumstances require it. If push came to shove would our board be strong enough to do this? If not, how can we put that right?

COMPOSITION

The range of skills and experience the board needs depends to some extent on the tasks it has to address (some functions, particularly finance, are common to all boards). It needs to be able to consider subjects from many viewpoints and to bring differing ranges of experience to bear. Some will be based on skills that flow from particular work experience, eg a sound knowledge of the way government works at home or overseas. Others will reflect specialist knowledge, eg scientific: marketing or financial. Many will include general management skills.

PERSONALITY

(a) Size and complexity of the business

There are undoubtedly "horses for courses". Some people fit one board but not another. This is partly a question of experience: a director of a big oil company might for instance feel out of place on the board of a medium size manufacturing company. On the other hand, such a person might relish the chance of being in a smaller business. Generally small company people do not translate well on to the boards of businesses much bigger than they are used to.

- (b) Whatever the size the candidate must have the strength of character to say their piece. "Mute inglorious Miltons" are a waste of time and money. The tougher the CEO the stronger his outside directors need to be. For a dominating CEO to surround himself with people who lack the courage to question him - let alone gainsay him - is a cruel charade and a betrayal of the shareholders.

This does not mean that outside directors should be garrulous, or interfere on trivia. They must have the good sense to position themselves correctly by sticking to what matters and not pursuing their own line by counterproductively. Strength of character should not be confused with misplaced obstinacy.

When considering all these questions reflect on the position of the CEO. If he is chairman too he has huge power over the corporation and the board and is the main source of patronage for both. This concentration of power absolutely requires a countervailing influence, not to thwart the CEO capriciously but to ensure that his skills remain sharp and his purpose is not deflected from safeguarding the interests of the shareholders in the company.

SOME DO'S

- Work out first with the board what the specification is. The rule is specification first, search later.
- Give colleagues a chance to help you assess whether a candidate strikes the right balance and wears his or her strength lightly. Character is crucial.
- Make sure a candidate has sympathy with the company's aims and the time to give to its business.

SOME DON'TS**DO NOT APPOINT ANYONE**

- for the lustre of their name
The criterion for appointment is CONTRIBUTION to the board's effectiveness.
- as a representative.
Every director has one constituency - all the shareholders.
- who is too old and past it - or getting that way.
- unless they can get to the meetings and can give the board and its committees the time they need.
- for an open ended period.
Set a term to their appointments renewable if necessary.
- Put an executive on the board just to give him status. If he needs status find another way of conferring it. The sole consideration for promotion to the board is the ability to contribute. Excellence as an executive does not automatically ensure this.