



# Getting on Board

## Rethinking the selection of Board Directors.

### INTRODUCTION

HRC Associates has a unique perspective on Board activity throughout the last two (2) decades. Our role as trusted Consultants and Board and Executive Recruiters presents us insight into the operations of most of the top companies within Trinidad and Tobago and the region. Boards today experience some of the same challenges as they did back in 1998, when we released our first Corporate Directors' Compensation Report, but there are some new issues that impact corporate governance within the global and local markets.

### BOARD CHARACTERISTICS

In HRC's 2018 Corporate Directors' Survey, forty (40) leading public and private companies reported details of Board of Directors compensation and aspects of Board composition and structure. Relevant highlights of the Survey are as follows:

- The average Board membership amongst these forty (40) companies was nine (9) members, with Banks and Holding Companies having an average of eleven (11) members
- The average age of Directors was fifty-six (56) years; thirty percent (30%) of companies had no mandatory retirement age
- Regarding Board composition, fifty-six percent (56%) of companies reported having the CEO as a member of the Board
- Only twenty-two percent (22%) of Directors were female
- Three (3) companies reported having the CEO also serving as Board Chairman
- Fifty-three percent (53%) of companies conduct performance appraisals of the CEO, few companies reported Performance Appraisals of the Board, or individual Directors
- Thirty-eight percent (38%) of companies agreed that CEO and Board of Directors Succession Planning was a significant issue
- On average, Board Chairmen are paid an annual retainer of twelve percent (12%) of CEO pay - which is keeping with international trends

“The changing landscape of Governance and associated complexities and challenges relating to Cyber Security, Sexual Harassment, Digitisation, Anti-Money Laundering, Climate Change and Sustainability, and the like, is a clarion call for a new breed of Directors.”

More and more, we are seeing Boards seek national best-interest – whether from a financial, social, or environmental perspective. Transparency is critical due to consistent and diligent oversight by Stakeholders and the advent of social media. There have been some tough and impactful calls made by Boards in recent times, and the continued scrutiny by all stakeholders will ensure that good corporate governance is the order of the day.

Where are Trinidad and Tobago Boards on the larger governance scoresheet?

### **THE CHANGING BUSINESS LANDSCAPE**

A recent conference titled “Getting a Seat at The Board”, put on by the Caribbean Corporate Governance Institute, saw lively debate around important governance matters relating to Corporate Boards in Trinidad and Tobago.

Everyone agreed that good Corporate Governance starts with the Board. In particular, the Nominating/Governance Sub-Committee of the Board has a critical role to play in raising Board standards, since they are the ones charged with identifying

Directors. Members also discussed the need for performance evaluation for Boards as a whole, Sub-Committees of Boards, and individual Directors, and bemoaned that this seems missing in most cases. However, when it is done, it is merely a check box exercise, and not taken seriously. If Board members cannot adequately do peer reviews, then Boards should consider using a third party such as a consultant to undertake the performance evaluation process.

How many Directors are required to serve on Boards for business organisations in Trinidad and Tobago, and where do they come from? Based on a typology of companies in various segments – publicly traded companies – 24; State-owned Enterprises and Utilities - 60; large private companies – 35; medium family businesses – 200-300, at an average six (6) Directors per Board, business organisations in Trinidad and Tobago require eighteen hundred (1800) to two thousand (2000) men and women to serve on Boards. This does not include NGOs, subsidiaries of conglomerates, and non-commercial statutory bodies.

Therefore, eighteen hundred (1800) to two thousand (2000) Directors is a conservative estimate.

### **NEW BREED OF DIRECTORS**

The changing landscape of Governance and associated complexities and challenges relating to Cyber Security, Sexual Harassment, Digitisation, Anti-Money Laundering, Climate Change and Sustainability, and the like, is a clarion call for a new breed of Directors.

New challenges in corporate governance suggest that Boards ought to take more active leadership of the enterprise, not just monitor its management. For example, this may mean that the Board takes an active role in setting strategy and gauging enterprise risk in concert with the CEO and Executive Team. This requires the Board Chairman and the Nominating Sub-Committee to carefully assess the aggregate Directors’ talent and the collective chemistry of the Board as a whole. Additionally, Boards must now look at CEO succession, executive compensation, strategy, merger and acquisition decisions, and risk tolerance, much more than they have done in the past, without wading into

micromanagement.

### MYTH OF SMALL POOL

Where do we find this new breed of Director given the conventional wisdom of the small pool from which to choose?

For much too long, Trinidad and Tobago business leaders have conveniently espoused the myth of the small pool! We are still recruiting Directors as we did forty (40) years ago, retaining the status quo – friends of the Chairman and fellow Directors, in-house executives, citizens of ‘high standing’ in the community, and retired executives. Too often, Boards are quick to snap up their retired auditors, bankers, or attorneys. Notwithstanding statutory requirement requiring someone trained in finance to head the Audit Committee, or for an Attorney to oversee regulatory requirements and complex contracts, etc., it appears that collegiality and friendship still prevails over independence and diversity in the selection of Board Directors. Most local boards do not have identifiable Independent Directors to challenge the Chairman or the CEO when the stakes are high. Think about

corporate failures and misadventures in both private and state companies of the last twenty (20) years. Were these essentially failures of corporate governance?

The fact is that Boards have consciously limited the pool by continuously filling vacancies with friends and familiar faces. The ‘old boy network’ still prevails. Indeed most Directors are selected on the basis of the Chairman, or other Directors’ references. Executive Recruiters are rarely commissioned to assist in the recruitment of Directors.

### NEED FOR DIVERSITY

Diversity offers different perspectives and is now of paramount importance. The fact is, diverse boards, including women and a broader demographic – age (younger), ethnicity; and non-traditional, emerging disciplines, make better decisions. Where are the digital professionals, business transformers, scientists, engineers, millennial thinkers? New evidence supports the assertion that women make better leaders. A recent research study showed that women score

higher than men in most leadership skills (see HBR June 25, 2019, ‘Research: Women Score Higher than Men in Most Leadership Skills’ by Jack Zenger and Joseph Folkman).

Still, the disturbing fact is that we found that only twenty-two percent (22%) of Board Directors are women (HRC Associates Directors’ Compensation Survey 2018). Apart from cultural biases against women, the truth is that many women do not aspire to the highest ranks of the organisation and therefore unwittingly take themselves out of the pool. Additionally, to many professional women, family and work-life balance trump career and so they impose their own glass ceiling.

The organisational feeder system can assist by providing the support system important to women as they move up the organisational ranks.

Another constraint to diversity relates to tenure and retirement age. In most cases, members are reappointed again and again after the three (3) year appointment cycle, thus precluding new,



Only 22% of Board Directors are women.  
(HRC Associates 2018)

“The scandals and misappropriations among SOEs over the past 20 years, and the huge cost to the taxpayer of such, call for a **complete rehaul** of how Directors of State Boards are selected.”

younger members from joining the Board. Should Boards impose term limits on Director Service? Do Directors who stay on too long become too cosy with management and could no longer be considered to be Independent? Should the retirement age for Directors be limited to say, age seventy (70); no more than three (3) terms? Older Directors may not understand the impact and risk of technology and digitisation, or appreciate new patterns of consumption among millennial customers. More importantly, are Boards prepared for monitoring and leading the next generation of corporate CEOs and Executives – the Millennials?

Extending the pool may even require Boards to look at candidates who may be resident abroad. There are many talented Trinidadians and Tobagonians in the diaspora who may be willing to serve on local Boards and who bring global perspectives not only on governance best practices, but advanced insights into strategy, transformation, and digitisation.

The complexities of today’s business world call for a different

breed of Director.

### **POLITICAL STATE BOARDS**

Because Trinidad and Tobago’s is a mixed economy, SOEs and utilities play an important role in the country’s economic landscape. Altogether, there are in excess of sixty (60) SOEs and utility enterprises in Trinidad and Tobago. That means sixty (60) Boards and about five hundred (500) Directors. SOE Boards are politically appointed in the main and many of the appointees are selected on the basis of political affiliation and not necessarily because of competence and experience.

Most SOE Boards see their principal role as that of Agent of the Government, and by extension, to the party in power. Little or no effort is made to insulate the CEO against undue Board and Government intervention, and complaints are made against Boards that have become micromanagers. Indeed, in many instances, the Chairperson has taken over most of the CEO’s tasks.

The scandals and misappropriations among SOEs over the past twenty (20) years,

and the huge cost to the taxpayer of such, call for a complete rehaul of how Directors of State Boards are selected. The concerns seem to suggest politicians should not be trusted to select Directors for State Boards, and an Independent Board Nominations Committee comprising a mix of stakeholders should be legislated.

### **CEREMONIAL FAMILY BOARDS**

To date, most Trinidad and Tobago companies remain family-owned, with their Boards dominated by owners, managers, and friends of the family. No distinction is made between family insiders and outside Directors, and members play a ceremonial role yielding to the parochial interests of family members. Founding families work to retain control of their firms even as they grow large, and are reluctant to invite ‘outsiders’ to join their Boards; thus limiting the opportunity for adding intellectual and experiential diversity. In light of this reluctance, as a first step, family businesses should consider the role of an Advisory Board to add diverse thinking and fresh perspective to their business operations and growth strategies.



“The days for the ceremonial director are over.”

## CONCLUSION

In summary, companies must ensure that they compose their Board of Directors to match their market ambitions. While not ignoring the critically important role as Monitors, Directors’ leadership role in leading is becoming increasingly necessary.

Directors are now required to think strategically about the firm and to ensure that they serve all stakeholders and be meaningful partners with the executive team. The days for the ceremonial director are over. The Nominating Sub-Committee of the Board must look at the collective chemistry required for guiding strategy in an increasingly disruptive market environment.

In addition to diversity, Boards must also strongly consider the need for a Lead Independent Director to challenge the status quo and BAU. In searching for new Directors, the Board should look outside of traditional limited frontiers. The pool for directors is larger than we think!

Boards can be a destroyer or creator of value. Informed directors with the capacity to think strategically are an important albeit underutilised asset, and a valuable source of corporate wisdom.

*We Are Your People Partner*

## HRC ASSOCIATES LIMITED

#3 Marli Street  
Queen’s Park West  
Port of Spain  
Trinidad  
West Indies

Tel: (868) 285-4HRC (4472)  
Fax: (868) 622-0173  
Email: [consulting@hrc-associates.com](mailto:consulting@hrc-associates.com)  
Website: [www.hrcassociatesltd.com](http://www.hrcassociatesltd.com)

**HRC** Associates  
Recruitment &  
Management Consultants