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# BEYOND COMPLIANCE

## FINDING DIRECTORS WITH TALENT, TIME AND INDEPENDENCE

*With Mike Ross  
of IIC Partners*

With the thanks of the Chair, that last, long-serving friend-of-a-well-connected-friend is finally leaving the board of directors and a replacement must be found.

Increasingly, there's a realization — and a genuine resolve — that new board members had better bring more to the table than those departing good-old-friends ever did.

"That resolve is a very good thing, so long as the whole process isn't driven by regulatory shock," says Mike Ross, leader of the global Board Search practice group of IIC Partners. "That's where professional counsel can help."

Regulatory guidance worldwide emphasizes the reality that non-executive directors must be incontestably independent and deeply qualified. And these new laws establish new standards of board responsibility and liability.

In this new environment, CEOs and boards of directors are scrambling to find the qualified and independent directors they need — but Ross says they shouldn't lose sight of the bigger picture.

"Strategy is the first imperative — yet it's frequently de-emphasized as companies become mesmerized by all the new legal requirements," Ross says. "The board needs to start with a clear picture of the ideal director; one who will provide needed talents and in-

dependence but also bring new business or geographical connections, new technical or cultural perspectives and new insights into risk management, while at the same time fitting well within the chemistry of the existing group.

"A credible search firm will identify these opportunities up front.

"Issues of strategy, transparency, quality, liability and availability all argue strongly that companies retain experienced search firms to conduct credible, effective and successful non-executive board searches," Ross says.

"Once strategic issues have been factored in, transparency is the next consideration," Ross says. "Historically, the vast majority of board opportunities evolved from the old-boys-network. But the do-it-yourself director search, driven from the Rolodex of the

thoroughness of the process." The search firm keeps records of the position requirements, people considered, their qualifications and the reasons for the final selection.

Quality requirements also convince more and more companies to contract board search assignments, he says. For certain board roles, specific competencies are required and search firms are better equipped to track down, assess and confirm credentials than an internal board committee.

Ross says increasingly higher director liability standards — and associated time commitments — have meant that some excellent candidates have removed themselves from consideration for board roles while others have carefully limited the numbers and types of board appointments they accept.

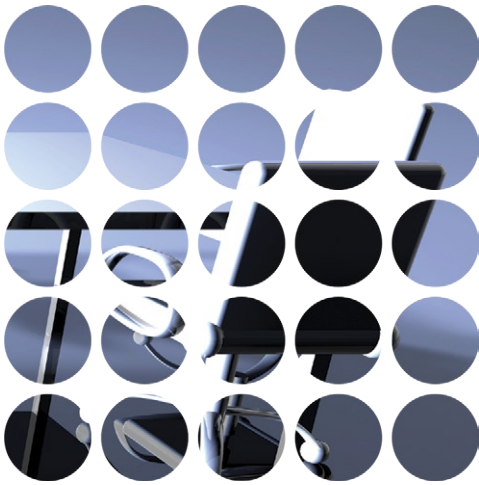
"Availability becomes a real issue. There's

***Strategy is the first imperative-  
but it's frequently de-emphasized...***

chief executive officer, will no longer pass the smell test — much less legal requirements. And we all know of very high-profile court cases where this point is currently being made.

"By comparison," he says, "the organization that uses a search firm is positioned to answer any challenge to the validity and

just a greater level of competition for a smaller pool of qualified people, so professional search services increase your chances of success and reduce the time a board position may have to stay vacant. Search firms are constantly in the market and consequently cast a much wider net," he says. Top-quality candidates are also becoming



# THE NEW SCIENCE OF BOARD AUDIT

*With Michaël Berglund  
of IIC Partners*

At its best, the business of assembling a board of directors has been a fine art. At worst, it has all too frequently been a cynical exercise in patronage and empire building. Now, as a matter of necessity, board making is becoming a somewhat more exact science.

less available because they're increasingly determined to serve only on boards with others of their own stature — because of liability issues, networking opportunities and concerns around reputation, image and career development.

Equally importantly, strong candidates have come to expect serious offers will be made through search professionals, and they're inclined to look less favourably on other approaches.

The requirements of discretion and protocol also mitigate in favor of the professional search, says Michaël Berglund, a senior member of the IIC Board Practice Group from Stockholm.

"At the Board of Directors level, the candidate wants to feel he or she is being targeted for the position versus being part of a large pool of candidates," Berglund says. Only one person can be approached at any one time. Potential board members must be precisely ranked by very discrete research before the preferred person is identified and approached.

"Obviously, researching and ranking candidates in this fashion is something a board search practice is in the habit of doing and others just aren't."

Ross says two considerations are key — the independence of the search process and the independence of the Director who is ultimately named to the board.

"Today's best-run companies need to know that a new board member can add value and will be willing to do so." □

**Mike Ross is the Board Search Practice Leader for IIC Partners and a Managing Partner with Conroy Ross Partners in Calgary, Canada.**

In Sweden, board audits are required by law, while in most other jurisdictions they're increasingly used to ensure — and to provide proof — that boards have been chosen to give companies and their investors the benefit of the best available oversight. "Board audits are really a matter of basic due diligence," says Michaël Berglund, board audit practitioner and founder of Michael Berglund Executive Search in Stockholm. "Audits ensure that the people who direct and review your business and your executive team have the necessary skills, motivation and, yes, the personal integrity to fulfill their roles.

"It's not enough that all the individuals are skilled and respected," Berglund says. "As a group, they must possess the full range of skills relevant to leading the business. They must have the time and the inclination to

function of assessing the performance of the Chair.

The Berglund team developed their audit process after interviewing more than 30 of Sweden's top corporate directors at length on all aspects of board functions, directorship and best practices. The resulting framework document could be described as a very detailed questionnaire, but Berglund is emphatic that a real board audit cannot be performed as a written survey. Every member of a board must be professionally interviewed so that the spontaneous dynamic of conversation can be allowed to surface detail and nuance and so that unexpected responses can be probed.

The Berglund method involves compiling an audit of the board as a whole, but explicitly avoids detailed evaluations of individual board members.

***Board members need to do more than vote. They need to be prepared to shape the agenda and the business.***

take on these considerable responsibilities and they must be prepared to ask difficult questions in a constructive fashion.

"Board members need to do more than vote. They need to be prepared to shape the agenda and the business," he says.

A board audit enables the Chair and the owners to assess these issues and reshape the board according to their findings.

Sometimes, Berglund says, 'audits' are conducted by the Board Chair, but these are really just subjective evaluations that lack independent, third-party perspective, especially when it comes to the crucial

"We prepare a written report of our findings and present it to the chair and to the nominating committee," Berglund says. "Then we assist as required but in the end it's up to the client to decide how to proceed. We find this works much better than focusing inquiries on individuals because people are less defensive. They provide more complete and honest answers if they are not intimidated by the prospect of personal evaluation.

"In the end, the result is the same," he says. "The report identifies strengths and weaknesses of the group and the process

enables all members of the team to see where the problems lie and what gaps need to be filled.”

In Sweden, he says, a few general themes have surfaced. With some exceptions, he says, Swedish boards of directors could fo-

cus more attention on risk analysis, CEO evaluations and human resources strategies.

“In other countries, the issues may be different or similar, but I would suspect there might be some similarities,” Berglund says. “We’ve all heard it said that board members

are chosen for their abilities to analyze numbers but they’re less comfortable in areas that call for intuition.” □

*Michaël Berglund is managing partner of Michaël Berglund Executive Search, the IIC Partners affiliate in Stockholm, Sweden.*

# THE BURGEONING INDIAN ECONOMY

## TAPPING INTO THE WORLD’S LARGEST DEMOCRACY

MUMBAI — India is the world’s fastest growing major economy, with a GDP growth rate of 9.2 per cent and a domestic market of a billion-plus people. About 65 per cent of the population is of working age — the youngest in the world — and foreign exchange reserves are close to \$200 billion US.

Geographically, India has abundant natural resources such as coal (fourth-largest reserves in the world), iron ore, manganese, mica, bauxite, titanium ore, chromium, natural gas, petroleum, diamonds and limestone.

India’s major exports are textiles, jewelry, engineering goods and software, as well as financial, research, and technological services, while crude oil, machinery, fertilizers, and chemicals are the major imports.

In 2006, exports reached \$112 billion US, against imports of \$190 billion.

“India’s not just poised — but has arrived with an elephant dance on the International platform,” says Keyur Thakore. “Today, any globally competitive company wishing to leap-frog into the next decade cannot give India a pass. So much so that senior executives and fresh graduates have made India ‘a must-have experience’ on their resués.”

If this sounds like hyperbole, Thakore has statistics in abundance to prove his case and a global perspective to leaven his view. He’s the founder of the Mumbai-based executive search firm KTA Associates and a long-time member of the global search organization IIC Partners, with offices in 40 countries worldwide.

He says India continues to receive massive doses of foreign direct investment (FDI). In fiscal 2006, FDI inflows (equity only)

from April 2006 to February 2007, were worth \$11.89 billion, compared to \$4.31 billion during same period of 2005.

**INDUSTRY SECTORS** — IT and ITES (information technology enabled services), with an estimated growth rate of 31 per cent, are expected to account for 5.4 per cent of India’s GDP, with exports touching \$31.3 billion US in fiscal 2007. BPO (business process outsourcing) to India from international clients could exceed \$100 billion US by 2015. Most of the world’s biggest technology companies, including IBM, Microsoft, Dell, HP and Bell Labs, have major and expanding presences in India.

With the end of world export quotas, the textile and apparel industry is on the threshold of a breakthrough and exports — currently at \$17 billion US — are expected to rise further.

The Indian automotive industry has grown at a CAGR (compound annual growth rate) of 14 per cent over the last five years, with total sales of vehicles reaching nearly nine million units in 2005-06. The Indian domestic passenger car market is expected to grow at a CAGR of 10-15 per cent for the next eight to ten years with annual sales of more than three million cars.

“With a large, educated and empowered population under 35 years old, it’s not



surprising that all the world’s leading auto brands are betting big on the great Indian auto bazaar,” Thakore says.

The Indian telecom network, with 189 million connections, is the fifth largest in the world and the second largest among the emerging economies of Asia. Today, it is the fastest growing market in the world. The total subscriber base is expected to reach 250 million in 2007. The wireless subscriber base accounts for 54.6 per cent of the total telephone subscriber base and is expected to surpass 2.5 million new subscribers per month in 2007. This has also had a positive impact on telecom equipment, with annual sales touching \$10 billion US. □



# CROSS CULTURAL AWARENESS EITHER IT WORKS OR...

By **Keyur Thakore**  
of IIC Partners

It's a small world! Advances in technology, travel and the footprint of businesses globally have made all of us next-door neighbours. Companies like IBM, Infosys, Wipro, and ABB employ multitudes of professionals from different countries, each with its own set of values, cultures and norms. Within one company — what may seem commonplace to some will almost certainly appear strange and possibly inexplicable to others.

A close look at global operations shows how culture, communication and human factors silently support or undermine the effectiveness of business operations. Increasingly, business leaders understand that cross-cultural awareness is a prerequisite to success.

Knowledge of the history, geography and even the climate of a place are an essential beginning to understanding a newly-encountered culture.

Many social scientists, including Edward Hall and Geert Hofstede, have researched the interplay between societal and corporate cultures to add new dimensions to our understanding of how people work together — more or less effectively. They identify such factors as whether a society is:

- individualistic or group oriented;
- egalitarian or hierarchical;
- risk taking or resistant to change;
- direct or indirect communication style
- task or relationship oriented;
- likely to view business as short term or long term;
- confrontational or confrontation-averse in handling conflict;
- autocratic or consensus oriented in decision making;
- collaborative or competitive in negotiations; and,
- inclined to use 'fluid time' or 'rigid time' to set schedules and expectations.

The same dynamics and expectations that affect employees of a single company who come from different cultures will have



an even more profound impact on relations between employees and customers from different cultures. We've all heard the marketing dictum that customers don't buy a product or service, they buy an experience. But that experience is profoundly affected by

In India, cultural diversity is the fabric of life. But as our country and the Asia/Pacific region attract massive foreign investment it is frequently the case that new entrants into the regional economy struggle with the mysteries of the East. As a logical outgrowth of

***Customers...buy an experience.  
That experience is profoundly affected by  
culturally conditioned expectations.***

culturally conditioned expectations. Seen from this perspective, there's immeasurable competitive advantage in eliminating areas of potential friction between employee and customer expectations.

our primary business in executive recruiting, we've found that many clients are best served by ancillary support in cross-cultural awareness. Workshops in this area should examine in detail the factors influencing the



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