

OILING BOARD PROCESSES

THE DYNAMIC EVOLUTION FROM “COMPANY SECRETARY” TO “CORPORATE GOVERNANCE OFFICER”

In the wake of the current financial crisis, a new wave of regulation will certainly emerge on how boards should be run; the processes and structures to support board performance. As the number of non-executive directors on boards grows, committees mushroom and liability risks for directors increase, the need to run the board machine professionally has dramatically increased.

In the Anglo-Saxon world the responsible person is called the “Company Secretary” (UK) or “Corporate Secretary” (US), but titles and job descriptions around the world differ widely. Nowadays a new title is emerging: “Corporate Governance Officer”. But whatever the title – there is a job to be done. Since 2002 we have been looking into this type of process design and management; building on Ada B. Demb and Fred Neubauer’s seminal research in the early 90s. In 2006/2007 we carried out global research involving 68 in-depth personal interviews mostly in large, global companies, and by analyzing quantitative data received through some 330 questionnaires completed worldwide.¹

What does the job of a “company secretary” look like?

As there is not a “typical” job description, we nevertheless could identify a number of key characteristics and functions. Contrary to popular belief, the real difference is not between a “one-tier”

board (executives and non-executives sit on one board with legally the same responsibilities) or a “two-tier” board (one supervisory, one management), but in the secretary’s reporting line: to the CEO or to the chairman of the board. Having a primary or even exclusive reporting line with the CEO, but assuming responsibility for supporting the board and its chairman, is certainly the most challenging situation for the secretary, as this may expose him/her to potential loyalty conflicts if there is board/chairman conflict with top management.

Typically the company secretary has a legal background, and quite often he/she also assumes the role of the company’s general counsel, usually in smaller and mid-sized rather than in very large companies. But surprisingly, 50% of our survey group had been in the company less than five years. One would have assumed that such a job, which requires utmost discretion, loyalty and insider knowledge of the organization, is given to a trusted, long-term employee. But obviously there is no career path for such a job in most organizations and companies frequently need to look outside to find someone with the necessary qualifications.

And the evidence is unquestionable: the role of the company secretary has increased over the last five years – both in terms of quantity and quality. This is due to several factors: more frequent meetings of the board and its



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committees, the increasing complexity of agenda items, compliance requirements (including minutes of the session) or the preparation of the AGM of shareholders. Preparation of the board meetings can be highly demanding and challenging: a bigger board book must be delivered in advance to a more critical audience of independent directors, and internal departments might be reluctant to prepare the documents on time and in the form specifically required for the board members. Board members today ask for more focused and independent information and more support by the company secretary than ever before.

The following chart shows the importance of different tasks as seen by the “company secretaries” themselves.



Importance of tasks and responsibilities

The job of the company secretary is clearly more internally than externally focused, but it is also more independent from management than it was five years ago.

Making sense out of the diversity

From our research a typology emerged, depending upon the nature and framework of the corporation’s governance. Four types of company secretaries differ across two criteria:

1. The organizational positioning is defined by the reporting line, either to the board or

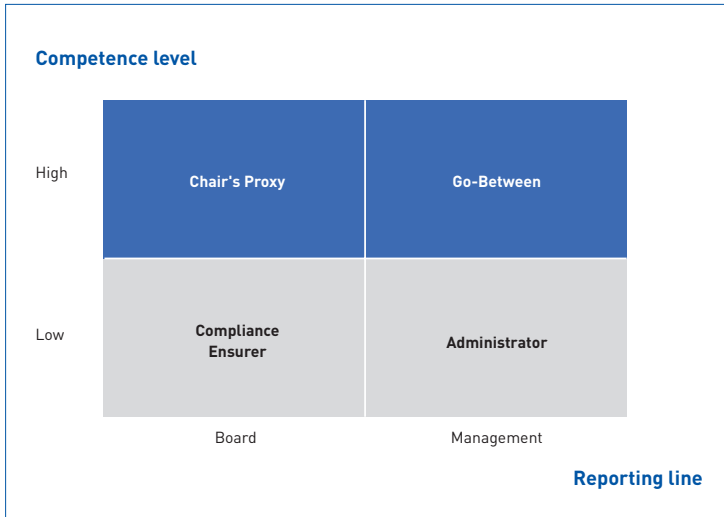
to top management; in practice, the most common case is a reporting line to the chair or to the CEO.

2. The overall level of competence of the company secretary is the other overriding factor. The (high or low) level of competence of the secretary runs parallel to the importance of the tasks and is therefore a useful indicator of his/her impact on the governance of the company.

Typology of company secretaries

Each type of company secretary has a different basic job description, different tasks, and ultimately a different impact on the company’s corporate governance.

1. The **“chair’s proxy”** is a secretary with considerable competence, who reports to the board’s chair and functions as his/her “eyes and ears”. If the chair is a strong personality, this type of secretary is an influential person, perhaps even an “*éminence grise*” at the helm of the company.
2. A **“go-between”** has a high competence level, reports to top management, and is a confidant of the CEO with the additional task of providing top-level support to the board. The go-between’s objective is to ensure that the board accepts the proposals from the CEO and management. The go-between controls process rather than content.
3. The **“compliance ensurer”** holds a position with a lower level of competence and reports to the board (mostly to the chair). In general, the compliance ensurer does not control or influence the preparation of board meetings or the processes during the meetings. Instead, this type of secretary responds to individual requests, for example from the chair, and provides the requested documentation.
4. The **“administrator”** role does not comprise major competencies and is characterized by a direct reporting line to management. The tasks of this type of secretary are predominantly administrative. “Administrators” are



often seconded to the chair's office from among staff members of the corporate legal department and only temporarily delegated to the chair's office.

The proportional breakdown of each job function (in actual practice) is approximately as follows: 25% of company secretaries are chair's proxies, 40% go-betweens, 20% compliance ensurers, and 15% administrators. The high percentage of secretaries reporting to the CEO/management is underscored by the fact that boards often do not have full-time support staff but must rely on personnel from the CEO-controlled headquarters. It is reasonable to believe that today the majority of company secretaries have considerable competences as well as an influential role in their companies. Dynamics in the corporate world are likely to lead to further shifts between the four types of company secretaries. The percentage of compliance ensurers and administrators will most probably drop with their respective job descriptions becoming increasingly more comprehensive. Accordingly, more secretaries will be chair's proxies and go-betweens.

A look into the crystal ball: The emerging role of Corporate Governance Officer (CGO)

In future, boards will require even higher levels of support. As a result, the role of what has been known as the company secretary in most companies will be elevated in terms of hierarchy to a full CGO. Owing to the increasing demands on boards, we foresee three particularly important challenges for the CGO:

1. Improving board information:

The CGO must make sure that board information is timely, of high quality and delivered in a useful way. External board members cannot work their way through an exhaustive management report that they may have received only shortly before a meeting. With the increasing importance attached to the independence of board members, the task of the

CGO might also include providing information from external sources since CEO-influenced sources are always somewhat biased.

2. Managing external and internal compliance:

The board will rely more on the CGO to ensure that the company complies with external regulations – laws, stock exchange requirements, and rules set by other authorities. It is also more often the job of the CGO to monitor compliance with internal, self-imposed regulation, such as codes of conduct, corporate values, business guidelines, etc.

3. Managing the governance process:

Finally, board work is becoming more complex and now includes an extensive risk management and control role. More areas need to be managed and controlled – no longer primarily in the financial domain but equally importantly in the risk areas of tax, legal, technology, and corporate reputation. The CGO will therefore have to propose effective rules and clear criteria about how the board and its various committees assume their responsibilities in defining and overseeing the company's risks. And it is the CGO's responsibility to make certain that board work remains transparent and that board members have a shared understanding about the necessary processes.

Emergence of a standard job description for the CGO?

This leads to a set of "must" tasks for every CGO, especially within listed companies:

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- **Facilitating governance processes:** This involves helping the chair set the agenda, not just for individual meetings but also for board work in general. It entails presenting management reports to the board and its committees, as well as ensuring that the board follows those established procedures.
- **Supporting board and committee meetings:** The CGO is responsible for preparing board and committee documents and making sure that they meet directors' needs. Writing the minutes and handling the follow-up after the meetings are key tasks.
- **Ensuring compliance:** The CGO must propose the framework for ensuring compliance with internal and external rules and regulations applicable to the company. Compliance of the board with best practice standards of corporate governance is a crucial part of this.
- **Shareholder management:** This entails managing the process for the AGM of shareholders and looking to make sure that shareholders' rights are guaranteed. The drafting of corporate governance reports and proxy statements is part of this engagement.
- **Integrating new directors:** The CGO facilitates the induction of new, non-executive directors into the business and their role on the board. The CGO also assists with the ongoing training and development of directors.
- **Keeping track of changes in the environment:** The CGO must be able to read emerging trends in the political and legal environments and provide early warnings to the board and management with regard to any changes

that may affect the board's work and the company in general. For example, the current debate on social responsibility.

Corporate governance is, of course, not static and pressures will continue to shape and change the role of the CGO. As companies continue to grow and globalize they also become more complex, confronting the CGO with even more demanding responsibilities. Legal expertise will certainly continue to be helpful but mastering the complex processes within a company's supreme corporate bodies requires different and much broader skills. Today's job description for the company secretary may no longer be adequate for the challenges companies will be facing tomorrow. CGOs must be forward-looking and should have flexible mindsets.

Conflicts between the chairman and the CEO and between board and management are no longer the exceptional cases they were in the past. CGOs will more often find themselves involved in such conflicts. Reporting lines and independence of CGOs may therefore also become a topic over time, not as a result of their wanting to play a more "political" role; but as an effect of the development of the CGO's role that we have described. In light of this evolution, are today's company secretaries ready for these tough choices and challenges? And, perhaps even more importantly: are boards ready to take the right decisions – appropriately positioning the secretary within the firm's hierarchy, listening to him/her when it comes to defining and organizing governance issues, and last but not least making the right choice when selecting their future corporate governance officer?

Ulrich Steger retired from IMD at the end of 2008 but remains involved with IMD in corporate governance and sustainability leadership research and teaching.

1 "The Insider's View on Corporate Governance – The Role of the Company Secretary", Palgrave Macmillan 2008

IMD is ranked number one worldwide in executive education (*Financial Times*, 2008).
IMD's MBA is ranked first worldwide (*The Economist*, 2008).



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