

## Corporate Governance Consulting: Who is Leading?

Written by Belen Gomez

When an overhaul or in-depth analyses of corporate governance practices are being called for by stakeholders, who does the board turn to for guidance? Corporate governance consulting and the emergence of firms dedicated to it is a direct result of the increased need for expertise and counsel in this area.

Given the growing demand for board consulting services, we at XCEO, a corporate governance consulting firm, consistently research and develop ways to best provide services to our clients. During my research, I came across an interesting article, "Corporate Governance Consultants: The Issue of Qualifications" by H. Stephen Grace Jr. and John E. Hauptert, regarding the topic of how corporate governance consultants can be qualified by boards and directors for the positions they hold. Although this article was written in 2007, and despite the recent downturn in the global economy and amplified persistence for "good" corporate governance, little progress has been made in developing standards for the emerging field of corporate governance consulting.

Grace and Hauptert highlight some key points and provide a framework for selecting competent, knowledgeable and trustworthy corporate governance consultants. The authors develop the concept of a "common body of knowledge" based on two primary components: an understanding of management processes and structures and an understanding of governance structures and processes. According to Grace and Hauptert, "corporate governance consultants should have a healthy suspicion of 'best practices'...consultants must understand the division of labor is specific to each company."<sup>1</sup>

Furthermore, the article provides some direction for boards, or selection committees, on how to qualify and hire the best advisors<sup>2</sup>:

1. The board itself should select the firm or individual rather than the management team and/or the CEO: the board should be wary of candidates proposed by management based on prior relationships. The board needs to guarantee the independence of the consultant and mitigate all conflicts of interest.
2. The board should plan early and build in time to go through the selection process, perhaps appointing the task to a specific committee or a group of directors: The board may not have the time, as a whole, to search for the right consultant/s and may find it necessary to appoint a committee within the board to do so.
3. Consultants should have the ability to evaluate the function of management and the board: It is essential for consultants to understand the relationship between the company's top management and the board in order to be effective.
4. Candidates should demonstrate the ability to relate and communicate effectively with the board and senior management: Consultants must effectively and articulately inform the board of any problem areas that need to be addressed and how best to achieve optimal results.
5. Experience in dealing with the wide range of issues a board may face: Qualified corporate governance consultants have the ability to guide the board as they encounter company-specific problems.

Although the guidelines provided by Grace and Hauptert serve as an effective process for selecting governance consultants, boards and directors must look at the final analysis given. In other words, it is imperative for directors and boards to require corporate governance consultants to provide objective recommendations and provide a method for executing and following up on those recommendations.

### Looking Forward

At XCEO, we believe that the board's Nominating and Corporate Governance Committee should take action to ensure that the board is receiving the highest quality of services from its corporate governance advisors. The

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members of the Nominating and Corporate Governance Committee are in the best position to curtail any lack of oversight and monitor the relationship with the hired consultant/s. There is an extraordinary opportunity for boards to achieve the results they desire by bringing in outside counsel, if there is qualification processes in place and there are shared expectations about the quality, scope of the relationship and agreed upon deliverables.

As Dr. Crawford indicated in his previous XCEO INK article, "Enlightened Corporate Governance: The Value Proposition for Building Long-term Shareholder Value," boards can no longer afford to wait to take action that may be mandated in the future by the SEC to develop best practices. The opportunity exists now to influence best practices and take more stringent measures to employ effective corporate governance consultants. Grace and Hauptert provide an excellent framework from which to start the search process for consultants and how to best hold them accountable for the services provided.

#### Reference:

1. Grace, H. Stephen Jr. & Hauptert, John E. Corporate Governance Consultants: The Issue of Qualifications. *Directors Monthly*, May 2007, 16 – 19.
2. Ibid.

## XCEO Consulting Services

At XCEO, we are dedicated to providing the most effective counsel and action plans for our consulting clients through our Enlightened Corporate Governance Board Performance Evaluation Program. We employ Web-based board and director performance-effectiveness evaluations covering each area of board functionality and provide access to a team that thrives upon continuous education, involvement with various directorships and board activities to create a solid base of experience. Tailored consulting services can be developed for each client ensuring confidentiality security, and quality of results.

To learn more about XCEO, and how our products, services and qualified team, visit our website, [www.xceo.net](http://www.xceo.net) or contact, Michelle Ronco, Program Director for Corporate Governance and Board Leadership Development, 408.855.0000.

## Announcements

Don't miss XCEO's advertisement in the May 2010 issue of *Directors & Boaras* magazine!

Also, planning has commenced for the October 2010 LinXsus® XPL Symposium for our LinXsus® and Professional Mentoring clients. LinXsus® and Professional Mentoring clients will receive more details in the coming weeks.

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