



I read Tony Featherstone's article on 'Unseating the founder' (*Company Director*, June 2009) with great interest. As with any good article, the title was provocative and the content worthy of reflection. Here are a couple of probing questions that add to those raised in the article.

**Unseating or re-seating the founder?** – Do boards sometimes face the momentous decision of whether to unseat the founder because they have not been sufficiently diligent about re-seating him or her during the organisational journey? "Reseating" implies continuing refinement of the critical result areas for the founder, in alignment with changing business circumstances and the board's commitment to enduring value. It seems to me that a board requires great insight to mould and shape the contribution of a founder CEO in accordance with a well-governed evolution of the company.

**Essential for past successes, unsuited for future success?** – The caution "don't throw the baby out with the bathwater" is relevant for boards of founder-led companies. The change from a founder-owned and dominated company to one broadly owned and increasingly professionally managed can be intensely difficult for a founder, management and a board. At best, such situations have signs of strain that need to be addressed. At worst, such situations can become dysfunctional. The outcome has much to do with the board's aggregate insight into the past, the potential contribution of the founder CEO and the board's ability to govern in a manner that maximises the founder's potential contribution.

Founder-led organisations are certainly interesting and demand careful and insightful board oversight. I recall an interesting board situation involving an entrepreneurial listed company with an exceptional founder CEO. The commercial success and the escalating management tensions were tied to him. The board was faced with an unavoidable decision to unseat or to reseat the founder. The chairman concluded that the founder had assets that outweighed his liabilities and was determined to reseat him. In hindsight, the chairman's appraisal was correct for this particular situation.

Unseating the founder will continue to be a question boards face from time to time. Despite this, a case can be made for boards to give more attention to a continuing process of reseating the founder, having regard to

succession and to the evolution of the business and to changing circumstances.

**John Reed MAICD**

The topic of executive remuneration has attracted unprecedented attention. This is despite probably not more than 100 to 200 executives in Australia earning compensation packages that shareholders or the Government would regard as outrageously high. Why, then, this hysteria?

Clearly, two major failures in the executive market have occurred. Firstly, the link between Total Shareholder Return (TSR) and executive remuneration is not strong. Many factors determine earnings, including, in particular, economic conditions, the structural or competitive position of a company in its market and the contribution of the total workforce. Consulting firms have estimated the CEO contribution at 20 per cent. Therefore, share price-related incentives are not justified.

Secondly, the relationship between risk and reward is asymmetrical in a couple of ways. The reward for success tends to outweigh the penalty for failure and there is a misalignment of timing. Rewards are often paid for short-term achievements, while failure occurs in the longer term. The responses to this situation have been either to review some "technical aspects" or call for regulation.

Clearly, some technical issues need to be addressed. Many boards have been embarrassed by multi-million dollar payouts for non-performance, based on agreements signed years before. Boards have now taken steps to be more proactive in developing and signing off on executive contracts. The excesses in this area are probably largely behind us. More emphasis is placed on the relationship between risk and reward. Repricing of options is now frowned upon. Moving averages of payouts for incentives will become more common. A call for 100 per cent fixed remuneration is an overreaction, though.

A big issue remains the compensation review process. Payment in the 75 per cent quartile, skewed comparison samples and published remuneration reports, as well as alignment of CEO and remuneration consultants, lead to continuously excessive upward adjustments of remuneration. Boards need to take much more of a lead role and responsibility for the selection and payment of remuneration consultants and lawyers. It is vital to restore trust between the community and the corporate sector.