‘Tread carefully on Russian boards’

By Dina Medland

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Russian companies are hungry for the enhanced corporate governance and credibility that a respected boardroom can bring and are scouring the UK for potential non-executive directors.

This quest for acceptance in western markets begins with listing the company on a London exchange – but does not always run smoothly, as seen by the recent boardroom fireworks at Eurasian Natural Resources Corporation, the Kazakh miner listed on the London Stock Exchange, which resulted in its senior independent director and vice-chairman being ejected from the board by a block of prominent shareholders.

But with lucrative pay and fresh challenges on offer, the rewards can be great for those prepared to seize the opportunity.

The first priority is to carry out due diligence, says Scott Eversman, Heidrick & Struggles’ Moscow partner responsible for the executive search firm’s Russian office between 2004 and 2008. He is now London partner in the firm’s industrial practice covering non-executive board positions in the oil and gas, mining and metals and broader natural resource sectors.

He says the real objective of most companies from the Commonwealth of Independent States is to buy corporate governance. They are new to the capital markets in London and are looking for people with substantial experience of those markets.

As these companies are “on a journey to greater transparency”, someone “with financial experience brings the extra perspective to keep company reporting consistently at the highest level”, he says. Retired chief executives, chief operating officers and chief finance officers are among prime candidates.

Britons are often favoured over other nationalities, he suggests, because of their familiarity with the FTSE-100, but sometimes he finds the perfect combination in another nationality – perhaps US, Canadian or Australian.

Some of the businesses are very young, as are many of the people concerned, and so they are also looking for non-executive directors who can act as senior advisers, almost as an “added responsibility”.

“We do our research and find out all we can about the company and its shareholders, and give the candidate that information,” he says. “We also put them in touch with the company’s bankers and other advisers, such as lawyers, and we urge them to do their own due diligence,” he says.

Mr Eversman admits that doing their own due diligence is “more realistic if they know someone who is a sector specialist, or have colleagues who sit on Russian or CIS boards”.

But, as anyone who gets to this stage is likely to be the preferred candidate, he adds: “We facilitate these contacts and see it as our responsibility to put them in touch with advisers who can help with due diligence. An important kernel for the whole appointment process is trust.”

The boardroom rows at ENRC, which raised questions about the company’s leadership and corporate governance, is unlikely to have put off potential non-executives considering working in a CIS country. “Most people who are willing to look at emerging company listings are willing to look at them on a case-by-case approach. Anyone who is likely to say ‘forget about it for me’ will already have done that,” says Mr Eversman.

He agrees, however, that the very public clashes at ENRC means “the appetite for due diligence on the part of future independent directors will be greater, especially where there are large controlling shareholders”. (He is keen to stress that Heidrick & Struggles was not involved in the appointments to the ENRC board.)

One of the powerful attractions of a position on the board of a CIS company is remuneration. Heidrick & Struggles, like all global search firms, will make recommendations on salary after extensive mapping exercises across industrial and geographic sectors, and after looking at other, similar Russian and CIS companies, and what they are paying their non-executives.

Mr Eversman is initially reluctant to put a number on it, but then concedes that, as a very wide range, a non-executive for a CIS business with a FTSE-100 listing could earn between £125,000 and £450,000 a year.

“There is no question about it,” he says. “There is a premium both because of reputational risk and because of the ‘senior adviser’ component.”

On the other hand, he believes it is important that compensation is not so high – in seven figures, say – that “it looks over the top and out of whack”.

He sounds cautious over the use of equity as a reward for non-executives: “So far we haven’t been involved in boards that did this from the start, but we have been involved with this (trend) as a progression. Independent directors sometimes suggest equity as a means of compensation and tax efficiency – but if you have an equity programme with staged vesting it can be a nightmare.”

Other problems can arise over timing and following accepted procedures when listing on a western stock market: “The trouble is, not all companies looking to do an initial public offering are likely to heed the advice of headhunters, who are then left to find a board at short notice.

“Too often they have left it too late. They will have a list of people from their investment banks and other advisers, who are seen as ‘pre-qualified’. But that doesn’t mean the right questions have been asked,” says Mr Eversman.

He says he has turned down work because companies have just not allowed enough time to find the right non-executive directors.

Describing the advice he would give to a Russian company looking for a London-listing, Mr Eversman says: “Ideally, I would say if you want independent directors to take part in a roadshow and all that, start the search a year before. Or at least six months.

“In that six to 12 months the candidate has time to go and see the assets involved, become familiar with the financial reporting and get to know the leadership.”