

The Director Recruiting Challenge

by Charles H. King

The tight market for top boardroom talent is starting to melt a few of the once-iron rules of director recruiting. While current CEOs remain the gold standard, retired executives, global talents, technology leaders, and younger and more diverse candidates are being considered. Smart boards will use this directoral détente for stronger, more responsive governance.

Economic slowdown, technology, new regulations, and market demands are challenging the best management talent, making the right board composition vital to the corporation's long-term success. However, director candidates in the current labor market are difficult to identify and attract. The 2000 Korn/Ferry International Board of Directors Study revealed that 44 percent of respondents' boards find it increasingly difficult to recruit high quality outside directors, up from 39 percent in 1999.

For many boards, recruitment habits and attitudes may impede building a board with talented individuals who will provide guidance necessary to protect and enhance shareholder interests. Unfortunately, many chairmen, CEOs, and nominating committee members fall victim to the old routine, automatically defining "high quality" as a chief executive.

In nearly every search for a new director, sitting CEOs are a board's first choice. However, most CEOs have extensive time commitments and already serve on several boards.

Company policy limiting the number of outside directorships a chief executive may hold also contributes to narrowing the field of candidates. Our study found that 21 percent of all boards have such a policy. Companies with revenue over \$20 billion are even more restrictive, with 36 percent having such a limit. These companies allow the CEO to serve on two outside boards.

Such factors prompted chief executives and chairmen to serve on fewer outside boards in 2000, an

average of two compared with three the previous year. However, little seems to stem a steady stream of invitations. In the past year or two, 75 percent of the CEOs participating in the study declined an offer to serve on another board.

Improved governance demands that directors now invest more time and actively participate. Opening your briefing book just before the board meeting is no longer enough.

The majority refused because of the time commitment required. Improved governance practices and changing business dynamics demand that directors invest more time in study and active participation. Opening the briefing book for the first time on the plane before the meeting is no longer enough. Outside directors spend an average of 173 hours annually on board matters, including review and preparation time, meetings, and travel. Only a year ago, 157 hours was the average time requirement.

As current CEOs began to decline directorships in the last decade, retired executives became increasingly attractive to boards, notably for their corporate experience, knowledge, and ability to devote the necessary time. In 2000, retired executives were the major source of outside director talent at 88 percent of publicly listed Fortune companies.

The "graying of America" phenomenon has been a mixed blessing for boards. In building strong boards, the length of service someone can contribute is considered. A board with too many retired executives may face a sudden recruiting crisis, especially if corporate governance has a policy in place regarding age limits for directors. More than three-fourths of the directors in our survey indicated their boards have such age limits for directors. A majority of

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respondents believe 71 is the appropriate age for retirement from the board.

In one case a company was looking for several outside directors. The CEO sought candidates who would be able to serve for ten years, barring unforeseen circumstances. A mandatory retirement age and targeted tenure combined to disqualify several retired executives. They would have to leave the board before contributing a decade of service. Even though these prospects were outstanding, the board continued the search rather than undermine its efforts to strengthen governance.

Willingness to challenge management was seen as important by 96 percent of the directors we polled. Still, directors must be able to “work and play well with others.”

How do boards find the talent they need for corporate governance? The first step in the process is defining the criteria needed in a good director. Almost all of the respondents (96 percent) in the Korn/Ferry director survey indicated a good director is willing to challenge management when needed.

The ability to challenge management is a relatively new concept in the boardroom, a far cry from the rubber stamp boards common a decade ago. “Challenging,” however, does not mean championing a cause to the detriment of the board and company. Being extremely combative or argumentative is unacceptable behavior for a director who intends to sacrifice the whole for the individual. Negotiation and consensus are expected in the conduct of board matters.

While charged with challenging the ideas brought before them, directors must be able to “work and play well with others.” The determining success factor for a director is an ability to function within the culture of a particular board. Often overlooked, chemistry or fit with other directors needs to be assessed thoroughly—prior to introducing someone to the board.

Each board has a distinct culture, reflecting the tone set by the CEO. Some are aggressive. Meetings

consist of highly charged exchanges. The board is populated with strong-willed, opinionated, outspoken executives ready to conduct business in a direct manner. No time is wasted and nothing is taken personally.

Most boards, though, have a collegial culture, comprised of energetic, bright individuals who function best in meetings with the more typical business decorum. Far from complacent, these seasoned executives can be strong-willed and expressive in discussions. In extreme situations, meetings can resemble those of an aggressive board.

Professional compatibility is no indication of social compatibility, which, surprisingly, is a non-essential element of board chemistry. Previously, when CEOs wielded total authority in selecting directors, emphasis usually was placed on the individual’s ability to fit in socially, fulfilling the “plays well with others” criterion.

Such selection practices created “country club” boards. Members mixed well and strong personal relationships grew. However, personal ties and allegiances often interfered with executing fiduciary responsibilities. CEOs, with free reign, ran corporations without question—or the benefits of independent counsel.

To challenge the CEO, directors must possess an intellectual curiosity and be genuinely interested in the business. While it is a plus for directors to possess knowledge or experience in the business, it is not essential in a candidate. Survey participants agree. Only 29 percent indicated that detailed knowledge of the firm’s industry was an attribute of a good director. However, the candidate, driven by inquisitiveness, must be willing to learn and use the knowledge in the boardroom.

Intellectual curiosity is a significant indication of a candidate’s future commitment to the board. As mentioned before, the time commitment is substantial. Boards of Fortune 500 firms conduct an average of eight full board meetings annually. Committees of these corporations have three or four outside directors. They meet between three and five times annually.

However, commitment is not only gauged by time

but contributions. Boards seek members willing to focus and use their vast experiences to help the company negotiate difficult situations, avoid problems before they occur, and choose the best course. Directors who diligently research and study issues and find information to complement that provided in the briefing book are dedicated to board service. Through their questioning, they provide a constant source of impartial, judicious counsel.

Creating a great board, one with committed professionals, is possible only by identifying the type of contributions needed to meet current and future challenges. One of the top criteria of good directors, according to our study, is possessing special expertise that is important to the company.

□ *Finance.* In conversations with chairmen/CEOs about current areas they need to strengthen on the board, finance is mentioned repeatedly. With new SEC standards for audit committee membership, the demand for financial talent is escalating. Most CEOs, regardless of their route to the top, have achieved a level of financial sophistication that would qualify them as potential candidates. However, finding a chief executive with the time is an ongoing challenge.

CFOs would seem an obvious choice for board financial savvy, but many CEOs do not consider CFOs senior enough to be their true boardroom peers.

A viable candidate is a retired partner or top executive from the audit side of a prominent accounting firm. These candidates have the financial acumen needed and, through years of diverse, high profile client relationships, understand broad business needs. Many retire at a young age, some as early as 55, easing board retirement age concerns.

Chief financial officers seem to be an obvious choice, but boards have not pursued CFOs for several reasons. The board is primarily comprised of CEOs. They expect fellow directors to be peers, and many CEOs do not regard CFOs as senior enough to invite into the boardroom. Also, their lack of day-to-

day management experience and profit and loss responsibility undermines their candidacy.

As more CFOs gain diverse management and P&L experience, however, boards' concerns will diminish. More invitations will be extended to CFOs in the near future, with the new audit requirements acting as the catalyst.

□ *Globalists.* Markets worldwide, foreign acquisitions and off-shore operations, as well as cultural and political issues continue to accelerate the demand for board members with global experience and knowledge. Almost half (47 percent) of the Korn/Ferry survey respondents believe one of the most important attributes of a good director is expertise about global business issues.

Currently, only 17 percent of survey respondents' boards have a committee that examines global issues. The majority (60 percent) cite board members' involvement in global issues is limited to discussion within the context of the firm's overall strategy. Less than half (42 percent) monitor and evaluate the company's initiatives in international markets. Even fewer (37 percent) devote time to identifying or assessing global trends and events critical to the future of the company.

□ *Technology.* A priority for most boards is to include a member who can evaluate the impact of technology on the company, make strategic recommendations, and communicate effectively with other members and senior managers. More than a third (38 percent) of the participants in our survey cited understanding of the firm's key technologies and processes as a criterion for being a good director.

In spite of their technical knowledge, dot.com executives are seldom considered viable board candidates. Few possess the management experience, strategic abilities, or level of professional maturity needed. Almost none have run a company successfully and only a handful would be regarded as peers or command the respect of more seasoned executives.

Many boards turn to established "old" companies at the forefront of emerging technologies as sources of director talent, such as telecommunication, software, hardware, and semiconductor organizations.

To qualify for candidacy, individuals must have broad experience to complement their technical expertise, a background that includes management and profit and loss responsibility.

□ *Younger talent.* As boards have added directors bringing special expertise, they have introduced a new dynamic to the boardroom: the under-55 crowd. Not too long ago, boards were loathe to consider anyone as a serious candidate if they were under age 55.

Exposure to younger talent has changed this attitude to one of greater openness to these candidates. Today it is commonplace to present executives who are in their early to mid-40s. On rare occasions, boards may even add a member who is only in his or her late 30s.

Inevitably, the question of a “generation gap” arises when boards consider a member who is not yet eligible for AARP membership. Concerns about chemistry and professional maturity are often laid to rest after careful screening and evaluation.

In the past few years, the average age of directors has decreased, a sign of the continuing willingness and interest of boards to add younger members. With traditional sources of director talent becoming increasingly scarce, this trend will accelerate.

□ *Diversity.* The “youth movement” has also been augmented by boards’ drive to diversify composition. Few minorities and women qualified for board service are grey-haired, sitting chief executives of the world’s major corporations. A select group of high profile women and minorities already serve on a number of boards and usually respectfully decline the ongoing invitations to join additional corporate boards. However, many qualified executives are in the “next generation,” up and comers in the world’s major corporations who have successful careers and tremendous responsibility.

Boards have discovered that they must look beyond the chief executive level. What they find are many younger talented executives, presidents of billion dollar divisions and subsidiaries, COOs, and executives with P&L duties heading billion dollar functions.

Without the CEO title, most have not yet gained

national recognition or corporate celebrity status. Many CEOs and directors are unfamiliar with their accomplishments and potential for directorships, yet their boards will be rewarded for these modest risks.

The CEO of a \$12 billion energy services provider sought to diversify his board. By working with a director recruitment specialist, two outstanding prospects were invited to join.

The first, a woman, is president of a regional energy company. While her track record of success was impeccable, this was only her second corporate board seat. The second new director is an African-American who is the COO of a Fortune 100 company. This is his first directorship.

Boards have made some progress in their efforts to diversify membership. Currently, 74 percent of Fortune company boards have at least one woman as a member. Women now comprise ten percent of the total director population of the largest companies in the U.S.

Ethnic minorities account for six percent of all Fortune company directors. Almost two-thirds (65 percent) of these corporations include at least one ethnic minority member, an increase from 60 percent in 1999 and 55 percent in 1998. African-Americans hold seats on 41 percent of these boards while Latinos are directors of 14 percent of Fortune boards. Asians have been elected to 10 percent of Fortune boards.

Dedication to diversity is evident in survey respondents’ intentions to continue their efforts, with 39 percent indicating they will add more women and 31 percent stating they plan to increase African-American representation. Latinos will be sought by 16 percent of the world’s largest companies, and 10 percent desire to broaden perspectives with an Asian member.

Boards that are most successful in director recruitment have left convention behind. They actively seek the next generation directors who fit the chemistry of the board, bring the needed skills, and are committed to being active contributors, regardless of age or title. ■