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DIRECTOR RECRUITMENT**Crucial Director Recruitment Tips for the Modern, Global Board**

Bloomberg BNA recently conducted an e-mail interview

Susan F. Shultz founded SSA Executive Search International, Ltd. in 1981, and has conducted senior level searches nationally and internationally, specializing in building and structuring corporate boards. She recently joined with BarkerGilmore LLC in New York to chair their global board practice, and is recognized as a leading expert in corporate governance. She founded The Board Institute to improve boards of directors through web-based, easy to use, validated tools to evaluate the effectiveness of and educate and benchmark boards, their committees and the independent directors. She authored the highly acclaimed “The Board Book, Making Your Corporate Board a Strategic Force in your Company’s Success” (AMA-COM) and has been featured in the New York Times, The Wall Street Journal, Business Week, USA Today, Strategic Finance, the Economist, CFO Magazine and numerous other media. She currently leads the Global Board Practice for INAC Executive Search Worldwide, helping public and private companies build better boards of directors. She can be reached at sshultz@barkergilmore.com.

with corporate governance expert Susan Shultz about best practices for director recruitment. She discussed the director search process and ideal director traits for the modern board, among other issues.

BBNA: What have you found to be the most desirable background for directors to have?

Susan Shultz: A career that demonstrates unwavering integrity, independence, courage and vision is very important. In terms of individuals with the type of experience that clients seek, a current CEO is most desirable, followed by recently retired CEOs, COOs, division presidents and line leaders. So, operating experience in the company’s industry or closely related industries is most valued. Financial executives (ideally a CFO of a public company), individuals who have achieved international success with their companies and minorities and women are important as well.

In fact, women are proportionately the most underrepresented group at the board level, followed by minorities. Many studies show that the most successful boards include women and ethnic minorities. A board that is not diverse in the current business environment will find it difficult to be responsive to its constituencies. Diversity also includes market disciplines, such as technology, marketing and human resources, age, geography and background. Attorneys, especially strategic corporate counsel with their unique perspective and experience, should have a place in the boardroom.

One particular area of diversity that is especially important and often overlooked is an individual who knows strategy across many businesses, not just a single industry or narrow group of companies. The synergies of dynamic, broad diversity in the boardroom are magical. A growing trend is the *global board*. A company with a significant investment in a region gains tremendous advantage by including a board member with deep knowledge of that region. One third of new directors bring global experience to their boards today.

BBNA: Are there skills that are more desired of director candidates today, and how has the current business environment impacted this?

Susan Shultz: Directors today are far more knowledgeable and engaged than even was the case as recently as five years ago. They know more about governance responsibilities and their company's business. Also, because of the escalating demand for accountability and transparency, and in response to the complexity of business today, there is much more emphasis on true independence and strategic value.

Boards used to be an afterthought, a combination of friends, family and golf buddies assembled by the CEO. Now, boards are recognized for the competitive advantage they can be, so there is much more thought given about how a board member can add value to the company. Whether the company is driving into new markets, operating in a regulated environment, doing considerable M&A, expanding real estate holdings, going public, bringing on new management, downsizing or leveraging social media, a board can recruit a director with any particular, proven area of expertise that will add immediate value.

In my view, too many boards focus on compliance and financials in evaluating potential directors, without locking in the breadth of diversity that makes a great board. I am concerned that we confuse *governance* with *compliance*. The emphasis should be placed on the *business* of the company. Compliance is a single subset of the governance umbrella.

A tremendous change in recent years is the sophistication and knowledge of director candidates. Today, boards must disclose the qualifications of their directors and, for issuers of the New York Stock Exchange, they must also disclose how those directors came on board. This encourages an independent process of recruitment. The nominating committee has responsibility for selection of new board members, adding tension to the invisible influence of the CEO.

In one instance, we conducted a search in which the board and the CEO disagreed about which of two finalists should join the board. The board's choice was brought on, and the CEO was happy with the new director. This scenario would not have occurred 10 years ago.

BBNA: Is there a set of metrics that you use to assess your director candidates?

Susan Shultz: We believe that as executive and director search specialists, we add unique value by collaborating with our clients on the strategy of the search. We "matrix" the existing board, identifying everyone's current attributes and skills, and then we look at the gaps—some obvious and some strategic. We then brainstorm the key future needs of the corporation and define what qualities and type of profile the ideal director should bring to the company. It is interesting to observe the evolution of the boards we've worked with, as they have, over time, grown to recognize the value of matrixing and of being proactive in the recruitment process.

One area of the search for directors that is often overlooked is marketing expertise; another is human resources. When you think about the most important role of a board (ensuring that the right leadership is in place) and you consider the current bullseye of governance (compensation), you may realize that human resources expertise is essential. In recruiting, begin with the director profile, not the person. We always evaluate director candidates relative to our pre-agreed set of criteria and provide our assessment of the match with the profile for each finalist we present to the board.

BBNA: Is there key information that you, or the client company, should always inform the candidate about regarding the specifics of a particular board position?

Susan Shultz: The culture of each board is unique. If we can communicate that particular culture to the candidate, we can move the director recruitment process to a new level. In light of this, we make sure to communicate the reason we believe the candidate is qualified to serve.

The candidate should be aware of the time commitment, how many committees she is expected to serve on and whether there are director and officer insurance exclusions of significance, succession plans, and critical metrics for success. Additional information that director candidates should be aware of include the existence of lawsuits (96 percent of mergers and acquisitions generate lawsuits), whether the company has or currently is facing regulatory issues, why the company needs the candidate, and what will make it most difficult to succeed on the board. The candidate should also know of any challenges the company is facing.

Candidates themselves will commonly ask whether the board is a *real* board whose work is valued and important, who else is on the board, and what D&O insurance coverage exclusions there are.

BBNA: Has a client ever asked you to expand your role to assist them in areas beyond the executive or director search?

Susan Shultz: Two areas in which I've been called to help come to mind. The first has been in helping boards transition directors who are not adding value off a board—the hardest thing to do in the boardroom is to fire a director. Nonetheless, boards must learn that a director seat is not an entitlement for life.

The second area has been in helping boards determine how they are doing by providing measurable guideposts for improvement. Now that the national exchanges and the Securities and Exchange Commission require more accountability and annual evaluations, the time has come for this more professional and independent approach. The objective and substantive evaluations that we provide with The Board Institute, our on-line suite of board tools, can take boards to a new level of success.

BBNA: What insights can you offer about the transition period that occurs when a new director has been selected and a search is over?

Susan Shultz: The better the new director orientation, the more effective the new director can be. Courts have ruled that passive directors may be legally vulnerable, so the new director shares in the responsibility to be informed.

Directors ought to be prepared to add value to the board discussions immediately. We are able to provide suggestions for the new director's orientation so that

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For further analysis of the board of directors and director duties, see Bruce A. Toth & Christina T. Roupas, *The Board of Directors*, Portfolio 63 in the *Corporate Practice Series*, available at Bloomberg BBNA. Go to <http://www.bna.com/board-directors-issues-p6971/> for more information.

KEY DIRECTOR RECRUITMENT STEPS

Boards can call upon director recruitment specialists to assist them in the following key tasks:

- Create a matrix (or refine) of existing skills, attributes, geographies, age, etc.;
- Clarify the board structure, process and calendar;
- Develop a measurable profile for each director position and refine as needed;
- Recruit proactively to each profile and incorporate original research with targeted networking, instead of randomly responding to suggestions. Identify people who have successfully dealt with your critical issues before;
- Interview potential candidates in the context of the board and the criteria;
- Assess references in both board service and personal contexts;
- Ensure there is an effective director orientation; and
- Debrief with the new directors after they are brought on board.

the new member will be up to date on critical issues, important people and processes that make governance in the boardroom work. Mentoring by a seasoned director, for example, following a sale from start to finish, meeting key management, visiting major facilities, identifying key risks and educating the director on the company's story are all critical.

BBNA: What motivated your founding of The Board Institute, Inc.?

Susan Shultz: The Board Institute's purpose is to reach, impact and improve boards across the country and ultimately around the world. Good boards are about good leadership and creating a risk filter in times of crisis. We help companies learn how best to make their corporate boards a strategic force in their success and to demonstrate their effectiveness to the marketplace.

Our educational content is reflective of the broad expertise in the marketplace, and our "best of breed" partners provide expertise targeted to each index. We are the only web-based solution of 93 entities accredited for director education by RiskMetrics. A key advantage of using our tools is the ability to stay up to date on governance mandates over the course of the annual subscription period.

On the whole, boards are working and they are adding value. As we blend carefully targeted individuals, the power of the board is exponentially exploding. If we don't govern well, the government will do it for us.