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TRANSITION TOOLS

Corporate Board Education

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The purpose of this packet is to give you the best information available about the expectations and nomination process for corporate directors. MyNextSeason's research and client experiences inform us that the path to a corporate seat is unlike any other; being elected to a seat on a corporate board is arduous work. We hope this information provides insight and assists you in meeting your next season goals. Leveraging your network, organizing your outreach, and honing your value proposition for board work is critical as is your commitment to the time it will take to be nominated.

A MyNextSeason Senior Writer will work with you to highlight your unique strengths and experience as you create your bio and LinkedIn profile to best position you for board consideration. Once complete, we will support your networking to support your candidacy for a board seat.

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Corporate Governance

Are You Ready to Serve on a Board?

by Anthony Hesketh, Jo Sellwood-Taylor, and Sharon Mullen

January 31, 2020

Summary. What can leaders aspiring to board roles do to prepare and position themselves for success? How does one develop what what we call *boardroom capital*? Interviews with more than 50 board members representing some of the world's leading companies suggest that it is built on five different types of intelligence: financial, strategic, relational, role and cultural. The categories might not surprise you, but it is important to understand why all are necessary and to think about how to improve in each area. **close**

Corporate boards are under increasing pressure to diversify their ranks – adding more women and minorities, as well as executives with different cultural and functional backgrounds – to better represent the people their organizations employ and serve. At the same time, the bar for “board readiness” has never been higher: directors are scrutinized for their ability to understand more complex businesses, demonstrate technical know-how, deliver effective governance, and generate sustainable long-term performance.

What can leaders aspiring to board roles do to prepare and position themselves for success? How does one develop what we call *boardroom capital*?

Unfortunately, the capabilities that power C-suite careers are not the same as those needed to sit around the top table, specifically in a non-executive capacity, because you no longer have all the levers of operating power at your fingertips. That is perhaps bad (but not terrible) news for obvious board candidates: they’ll simply have to work to develop the right skills. It’s unquestionably good news for non-obvious candidates – that is, those who didn’t or couldn’t ascend to the ranks of top management, which continue to be male- and majority-race dominated around the world. They will need to work hard, too, but they can start on a more level playing field.

As Charlotte Valeur, a Danish-born former investment banker who has chaired three international companies and now leads the UK’s Institute of Directors, says, “We need to help new participants from under-represented groups to develop the confidence of working on boards and to come to know that” – while boardroom capital does take effort to build – “this is not rocket science.”

To better understand what makes a director successful today, we conducted interviews with more than 50 board members representing some of the world’s leading companies. We found that boardroom capital is built on five different types of intelligence:

financial, strategic, relational, role and cultural. The categories might not surprise you, but it is important to understand why all are necessary and to think about how to improve in each area.

Five Types of Intelligence

Financial. Can you talk in numbers, not just in words? Directors cannot fulfill their fiduciary duties without being able to quickly draw an informed opinion on to the capital structure of the company; its financial gearing, the sustainability of cash flows, or its risk envelope. These fundamentals have become even more important in wake of numerous audit-related scandals and increased scrutiny from regulators. But this mandate doesn't require you to have been a CFO or conducted an audit. "It's definitely not a discussion about the technical aspects of accounting," says Crawford Gillies, who serves as senior independent director on the boards of Barclays and SSE and holds chairman roles at other public sector and private organizations. "For me, the key issue is to be able to interpret an income statement and use that to understand what is going on in the business: what may be going well and not so well." You might want to crack open some old accounting textbooks. But more important is showing that you know enough about the balance sheet to listen attentively to a CFO, ask smart questions, and hold him or her to account if the financials aren't clear enough.

Strategic. Being fluent in financials is one thing. Can you then translate them into strategy and back again? Ruth Cairnie, former executive vice president of strategy and planning at Royal Dutch Shell and former non-executive for Rolls-Royce, who is now chair at Babcock and sits on the board of ABF, outlines the way directors need to think: "Does the strategic thinking pay adequate attention to key trends and external realities? Are we being honest about our competitors' positioning and competitive advantage? Is there a real credible link between the strategy and the projected financials?" Having ensured all the numbers add up, the conversation turns to how the strategic whole might in future equate to a number *exceeding* the sum of the accounting parts. ESG (environmental, social, governance) issues are now a top priority and an area in which any board aspirant must be knowledgeable. In our research, we identified four different ways that directors have pushed companies to understand, articulate, and measure sustainable value:

- economies of capital (financial markets)
- experience (employee and customer value propositions)
- reciprocity (who you do business with and how)
- materiality (delivering what you say you are going to deliver).

Boardroom capital requires taking responsibility for looking beyond short-term value realization, to what Joseph Bower and Lynne Paine have described as a company's health, not wealth.

You should also be familiar with new business models and evolving sector-specific strategies (be they services, software, technology or digital to name a few recent examples) and be comfortable with a faster pace of change than boards have ever faced in the past. Some organizations like the Guardian Media Group in the UK boast of being able to tear up and replace their strategic plans every 13 weeks. As Fabiola Arredondo, non-executive director at Burberry, Campbell Soup Company and National Public Radio observes, "it used to be that boards would hold a strategic planning session once a year. Now I more typically see boards seamlessly introducing strategic discussions into each board meeting, with a deep dive once or twice a year."

Relational. Stepping up to the board requires you to take a step back. The role is to scrutinize, encourage, and advise, not operate. You need to build successful working relationships with other directors, the company's top executives and wider stakeholders, each of whom come with their own experience and opinions. In the boardroom, where the pressures are high and the egos numerous, success turns on the ability to clearly communicate with others and, perhaps more importantly, understand what people are trying to communicate to you.

The ideal, as one of our interviewees described it, is "one big team together, all from different nationalities, different places in the world, different backgrounds, [working as] a unit of people together and enjoying it." But that is not always the reality, Valeur notes, and board relationships require careful management. Being effective involves listening carefully and being able to grasp, process, react positively, and adjust your thinking quickly to the direction of the conversation and to suggestions you may have not previously considered from peers. "The one thing you need to be mindful of coming from a less well-represented group is that you are disrupting the boardroom by simply being who you are," she adds. Her advice is to observe the behavior of more tenured peers while still serving as a diverse voice.

Role. Board members must be clear on their contribution to the conversation. As one experienced boardroom player explained, "We have eight meetings a year. You probably get the opportunity for one, or, if you're really lucky, perhaps two questions per board meeting. That's around 10 questions annually, so you need to make sure you think about what constitutes a material intervention." Ask yourself why you've been picked for the board and on which issues you can add the most value. Mike Clasper of Coats and formerly Which? Limited, notes, however, that the difficult thing about being a non-executive director is not asking a [first] question probing an underperformance issue or challenging the strategy but knowing when to ask the same question again.

Cultural. Mary Jo Jacobi, former senior U.S. Presidential advisor, former senior corporate executive, and current board member of The Weir Group and Mulvaney Capital Management, says that the duty of the board chair and other members is "to create an environment where the executives feel willing to be forthcoming, to admit if something is not going so well, and to seek the board's advice and guidance on how to fix it. It is inappropriate to foster an environment where the execs have to be seen as successful and right and that everything is going great when that is not always the case."

Any director can help his or her board chair in these efforts. That level of transparency, trust, and rapport flows from careful preparation and orchestration, an ability to quickly evaluate and understand the culture of a group and, if it needs improvement, to develop a plan for finding allies and slowly steering the group toward change. As Ruth Cairnie warns, "I have experienced plenty of organizations where you have very capable people but don't get anything like the best out of them because the dynamics and chemistry are not right."

Building Those Skills

The wisdom of our experienced crowd suggests you do not have to be the finished article before embarking on a boardroom career. But, if becoming a company director is one of your ambitions, you should begin to build board-relevant experience as soon as possible.

Here are a few ways to get started:

- ***Financial:*** If you haven't already, obtain responsibility for your own P&L, observe carefully how assets, investments, and leveraging combine to drive free cash flows (FCF) and listen online to earnings calls.
- ***Strategic:*** Increase your exposure to your firm's business model, understand how it relates to your strategy and operations and how changes release (and potentially put at risk or destroy) economic value.
- ***Relational:*** Seek out opportunities to talk with and present to your board and pursue potential decision-making opportunities at the top of internal business units or in external roles. Watch and learn from those you consider expert. Ensure that you enable the success of others on your team and beyond.
- ***Role:*** Focus on what role you have been chosen to play and where you add the most value. You can practice this in all your meetings and projects. Emulate others who bring that same precision to their work and interactions.
- ***Cultural:*** Work on your ability to read, get along with, and improve the culture of diverse groups of peers by joining cross-functional,

cross-industry, and cross-culture groups.

It also helps to think about what kind of board member you want to be. In our study, we found that four common approaches (though the list is not exhaustive, and there remain further variations and combinations including the possibility of board members playing different roles at different times.)

- ***Police*** embrace the increasingly regulatory role board directors are compelled to fulfill; the best ones call executives to account without weighing them down with regulation and red tape.
- ***Data junkies*** are financially fluent, highly competent, and focused on targets, but should avoid demanding excessive information and acting with too much cold logic in their interactions with peers and executives.
- ***Architects*** want to lay firm foundations that will outlive the lives of their board tenure; successful ones recognize the delicate balance structure and flexibility and short-term returns and longer-term fiduciary and custodial responsibilities
- ***Pilots*** see everything from 30,000 feet. They understand and can articulate how value is created, enhanced, protected, and delivered but need vigilance to ensure smooth take-offs and landings.

Finally, we'd urge you to seek advice from experienced colleagues and contacts, expressing your desire, aspiration, and potential to lead at this level. When sharing your resume, the content you include should be different to what you have used to date. You should instead signal your potential by outlining your capabilities in each of the five areas of intelligence.

Anthony Hesketh is a senior lecturer at Lancaster University's Management School, United Kingdom. He is co-author of Explaining the Performance of Human Resources Management

(Cambridge University Press, 2010) and The Mismanagement of Talent (Oxford University Press, 2004). Connect with Ant at twitter.com/AntHesketh

Jo Sellwood-Taylor is a founding director of Mullwood Partnership, an international search and research business specializing in human resources and non-executive board appointments.

Sharon Mullen is a founding director of Mullwood Partnership, an international search and research business specializing in human resources and non-executive board appointments.

Harvard Law School Forum on Corporate Governance

Want to Join a Corporate Board? Here's How

Posted by Susan S. Muck, Fenwick & West LLP, on Wednesday, February 26, 2020

Tags: Board composition, Board turnover, Boards of Directors, Director qualifications, Diversity
More from: Susan Muck, Fenwick

Editor's Note: Susan S. Muck is a partner at Fenwick & West LLP. This post is based on her Fenwick memorandum.

As scrutiny of public company leadership increases, corporations are feeling the pressure to get out ahead of criticism by examining and adjusting the makeup of their boards. This makes 2020 a great time for business leaders interested in joining corporate boards—including professionals from nontraditional backgrounds and underrepresented groups—to make the jump into one of these high-profile roles.

In the past, company boards recruited nearly exclusively from the ranks of current or retired CEOs, CFOs or existing board members. Now, several trends are converging to make board membership accessible to a wider range of candidates than ever, increasing the chances for business leaders who haven't served in the C-suite.

First, research continues to show that increased diversity in the boardroom is connected to stronger corporate performance. And diversity isn't just about gender and ethnicity—candidates with disparate ages, experience levels, and professional or economic backgrounds offer valuable insights and skills that are particularly welcome, if not critical, in today's business environment. One **study** of Fortune 250 companies found that having a variety of experiences and perspectives at the table allows companies to better understand opportunities, anticipate challenges, and assess the various risks, consequences and implications of possible actions. Nontraditional candidates can use these findings to their advantage.

Second, while diversity remains low, it's on the rise. The speed of change in the business world has been forcing leadership to bring in new perspectives. Spencer Stuart reports that today's new directors are younger and more diverse than ever before. The share of women and minorities joining corporate boards last year hit record highs, as 45% of new Russell 3000 board seats were **filled by women** and 21% of new seats in the Standard & Poor's 500 were **filled by minorities**.

These trends are as evident at Silicon Valley tech and life sciences companies as they are across the United States, according to the latest **Gender Diversity Survey** from Fenwick. Overall gender diversity in leadership, as measured in the Fenwick Gender Diversity ScoreTM continues to slowly rise, and companies in the SV 150 are improving at a faster rate than the mostly larger companies in the S&P 100.

Third, external pressures on companies to diversify are growing. At this year's Davos World Economic Forum, Goldman Sachs CEO David Solomon **announced** that the investment firm would no longer underwrite IPOs for companies that have all white male boards. As of 2019, California is **requiring** all public companies headquartered in the state to have at least one female director. BlackRock, the world's largest money manager, has embraced the **public stance** that companies in which it invests should have at least two women on the board. And proxy firm Glass Lewis last year **implemented** a policy of voting against the nominating chair of any company without at least one female director.

Should you join a board?

As businesses grapple with calls to diversify, women, minorities and other nontraditional candidates interested in joining boards finally have, hopefully, improved opportunities to succeed.

If you're considering seeking a directorship, I encourage you to think as strategically about your board aspirations as you do about your overall career goals. In my work with public company boards and management for the past 35 years, I've counseled companies, directors and officers in navigating corporate crises or defending U.S. Securities and Exchange Commission and U.S. Department of Justice investigations, securities class actions and fiduciary duty litigation.

Drawing on those experiences, I believe as a prospective board member, you should keep in mind a handful of considerations as you move through the decision-making process to enhance your chances of landing a board position and to provide meaningful contributions when you do.

On the positive side, a corporate board seat is an opportunity not only to showcase your professional expertise but also to gain even more knowledge and perspective. As you sift through the many technical, tactical, legal and business issues that come before the board, you will have multiple opportunities to gain a better understanding of corporate strategy and decision making. Some directors say every year of board service is **like earning a mini-MBA**. Depending on which company you sign on with, a directorship can also offer you a chance to learn a new or adjacent industry.

Your fellow board members as well as the management you'll be interacting with will all bring their own insights and experience to the table, providing incomparable learning opportunities. The networking possibilities are also massive. Developing good relationships with these colleagues will exponentially increase your professional reach in ways that can pay off dramatically in the future. Fellow directors will have connections, skills and expertise that may be valuable to you outside your board service.

Joining a board can provide financial benefits. Compensation for directors can range from six to seven figures, including stock awards and extra payments for meeting attendance and committee service. The highest-paid directors in 2018 were those at Twenty-First Century Fox, who **received average compensation of $2.58 million**. In contrast, board members at Applied Materials, which came in at No. 250 in a ranking of highest-compensated corporate directors by research firm MyLogIQ, received retainers of $70,000 each and stock awards of more than $222,000. For many directors, however, the opportunity to help steer a company from stasis to success is the far more valuable reward.

The downsides to directorships can be substantial, though. For one, joining a board typically requires a significant time investment—20 to 40 days a year per corporate board, depending on which company you join and its governance or committee needs. Your time will be spent not just traveling to and attending meetings, but also meeting preparation, committee work, research, reviews of strategic items like talent assessments and investment proposals, and educating yourself about the company and its competitive environment.

As a director, you will also be exposed to legal liability stemming from your decisions and the actions you take in your role as a company leader. Board members have **a fiduciary duty** to the company and its shareholders to act in their best interest. If management or the board engages in malfeasance, or even if shareholders simply believe wrongdoing may have occurred, you could be sued. Directors are typically indemnified by the company and protected from financial liability by directors and officers insurance and corporate measures, but being sued by shareholders or investigated by regulators can be distracting at best and catastrophic at worst.

And should you work for a company that is a potential supplier or partner to the corporation whose board you'd like to join, you may find yourself disqualified due to conflict-of-interest or independence rules limiting the degree to which directors and their family members can "do business" with the company on whose board they sit.

If you've evaluated the pros and cons and decided to go for it, here are a few guidelines on how to increase your chances.

How to position yourself for board service

1. Promote yourself. You've probably worked hard to build your resume and hone your skills. But that's not enough. You need to speak up about your contributions, the value you have created in prior companies, and broadcast your interest in serving on a board. Raise your visibility through published articles and speaking at conferences. It's important to self-promote early and continue to build your brand throughout your career.

2. Nurture relationships. Executive leadership is a highly networked world and many board members earn their positions through existing connections. Reach out to people who are already on the board of a company where you'd like to serve, to executives, or to advisors such as outside counsel. Look for common backgrounds—the same alma mater, volunteering in similar areas, serving on the boards of similar nonprofits. Corporate and defense lawyers with whom you have developed relationships can also be very helpful in identifying board opportunities. LinkedIn and other social media are a valuable source. Keep all your contacts current.

3. Develop a specialty. Companies increasingly are appointing board members with expertise in emerging areas, such as artificial intelligence, machine learning and cybersecurity. Professionals savvy in digital transformation or customer insight are also sought out. (Read more in Spencer Stuart's **How Next-Generation Board Directors Are Having an Impact).**

4. Join organizations. If you are engaged in a cause, join the board of a relevant nonprofit organization where you can gain the skills and experience that would be valued on a for-profit board. Numerous organizations are also invested in the effort to increase diversity on boards, including the **National Association for Corporate Directors** (NACD), **Stanford Law School's Directors' College**, Northwestern University's **Kellogg Center for Executive Women**, Harvard Business School's **Women on Boards program**, and the **Alliance for Board Diversity**. Others include **Watermark**, a San Francisco Bay Area membership organization dedicated to increasing the number of women in leadership positions; **Athena Alliance**, which provides leadership coaching, board opportunities, exclusive events and one-on-one mentorship; and **Directors League**, a peer-to-peer organization of active public company board members who share practical advice about real-world situations.

5. Seek out the right opportunity. Serving on a board is a serious time commitment. Don't rush into the first opportunity that arises. Assess whether it's an organization that you're interested in and one where you'll be able to grow as well as make a significant contribution, considering the strengths you would bring to the position.

Once you've made it to the boardroom, you'll want to make the most of your time there. Here are a few tips on how to do that.

Tips for new directors

1. Don't go into early board meetings trying to do something dramatic. Earning a seat on a public company board is an accomplishment, and many new members are eager to prove themselves the minute they arrive. But every company board has a unique culture, and it is important to take the time to learn who the other board members are, how the board operates and interacts with management, and the best way to navigate existing relationships. The board may have existed as a living, breathing organism for years or even decades before you came along, and individual directors may have invested years of their own professional time into the organization. While some boards may need immediate or profound change, don't assume that you need to prove your mettle in the first meeting.

2. Master the company basics. New board members should get comfortable with the details of the company business model, strategy, financials and senior management. It helps to spend a few days prior to your first board meeting getting to know the business and your management team. If you can apply a SWOT analysis—evaluating strengths, weaknesses, opportunities and threats to the company—to your self-education, you'll be able to start your service from a position of strength.

3. Know where you can be most helpful. Take stock of your skills and experiences, and don't hesitate to ask company management about where they can be most useful. Identify someone on the board who can offer insight into existing board dynamics and check in regularly with the board chair. Talking to the in-house counsel and outside lawyers can be very informative, too. You can gut-check your personal SWOT analysis with these folks and ask what you might have missed.

4. Find a mentor. First-time directors often benefit from having a mentor who's been on the board for a while, who can fill any gaps in your knowledge, and help make you more effective. Ask your mentor for feedback about your level of participation at meetings.

5. Learn to navigate conflict. Remember that your job as a board member involves asking difficult and probing questions for the good of the company. But there's also a skill and an art to the process. If you're new to the board, do your homework. Consult with your mentor or other board members to gain context about difficult subjects before raising them at a meeting. Early in your tenure, a good approach is to ask questions—even if you know the answer—in the spirit of arriving at the right answer collaboratively and helping to build general agreement.

6. Develop your voice. Once you have a sense of how the board works, who the players are, how decisions are made and what drives the company's strategy, you'll be better positioned to make your own voice heard about areas of concern, strategic gaps and new business opportunities. One way you can make an impact after you've settled in is by working to increase diversity. Leverage the research connecting increased diversity with better business performance to make the case for measures like voluntary targets for diverse board members and increased transparency about the company's diversity in corporate disclosures. Encourage the company to expand beyond the traditional sources when it searches for new board members, and advocate for increased mentoring for new directors. As with any effort to drive changes in policy, the best time to raise an issue is after you've established credibility. Boards can be political, so you want to make sure you spend your political capital wisely, and smart timing is part of that.

In the end, you can gain unparalleled professional experience from serving on a corporate board. More importantly, you can make substantial contributions to the company's financial and operational success, including by furthering efforts to be a more diverse organization.

Anita Sands Follow
Board Director, Advisor, Writer, Speaker & General Disruptor
Apr 19 · 8 min read

Chart Your Course to Land Your First Board Seat

Getting your first board seat requires a well thought-out strategy

Last week, I addressed a group of aspiring corporate directors for an organization called Ascend, which endeavors to increase the number of Asian-Americans sitting on corporate boards. The topic at hand was how to secure your first board seat.

I'm frequently asked about this challenge, and my first piece of advice is always the same: manage your expectations. The cadence and recruiting process for board directors differs from typical executive recruiting, often with longer timelines and somewhat opportunistic appointments.

However, with that caveat out of the way, I firmly believe that potential directors can do a lot to improve their likelihood of success. To break into the boardroom, you need a well-thought-out "campaign."

Map out your campaign

Achieving increased board diversity is not a supply-side problem but rather a demand-side process challenge. While old-school board recruiting methodologies still exist, there are plenty of companies looking to diversify their boards, which is why you need to construct a proactive strategy. To get you started, here are five important questions to ask yourself.

1. What skills do I have to serve on a board, and what skills do I need?

First and foremost, think about your professional experience. What unique skills or key expertise do you possess that would be valuable to an organization? The distinction between *skills* and *experience* is important. Boards may be open to your specific skill set, even if the context in which you acquired that experience is less applicable.

For women and minorities, this attention to specific skills is a positive mindset shift in board recruiting. In the past, the focus has been on finding directors with prior board experience or those who are sitting or former CEOs. Today, more and more boards are thinking about how to address the challenges presented by this disruptive and transformative era. In fact, 30% of boards in 2014 were looking for directors who bring new skills to the table; that percentage is even higher today, especially if your skill set includes digital, data, or cybersecurity. For the same reason, boards might balance accepting a younger candidate with less operational experience because of the social media, digital, or “next-gen” insights he or she can bring.

To further guide your thought process, consider the following:

- Perhaps you have HR experience and, as a result, acquired expertise in dealing with complex compensation matters. Many boards are looking for additional support in this area.
- As an M&A expert, you could be a crucial board addition to a company operating in an industry undergoing a high level of consolidation.
- As a former CIO, you come well-equipped with the skills that companies facing digital disruption need.

- Lived and worked abroad? You may offer valuable insights to a company that is in a high-growth expansion stage.
- Or maybe you have sector or vertical experience—for example, in financial services—that would make you attractive to a Fintech startup.

The point is that *context* is important, and you should selectively develop your list of target companies. By first identifying your primary skill set(s), it's much easier to map them to companies at the right age-and-stage and pinpoint opportunities where there's a need for the specific skills you bring.

In terms of skills worth acquiring, there are many ways to familiarize yourself with key corporate governance matters and financial reporting acumen, both of which are valued prerequisites for aspiring directors.

2. What is my value proposition?

A key dimension of your preparation is to clearly define and articulate your value proposition. When my friend Gerri Elliott shared her eight steps to landing a board seat, she emphasized the articulation of your value proposition because it's the best way to "help your network help you." Your value proposition includes not only the skills identified above but also the different elements of your background and network, as well as your personal brand.

Too many people overlook this last point: your personal brand is how you market yourself to the world, primarily through your digital footprint, and it should appropriately reflect your value proposition. Ask yourself: are you considered a thought leader in the areas where you would add value as a director? Once you start thinking along this line, it becomes easier to identify what you might need to do to make your value proposition more apparent and gain further recognition.

Another key nuance in developing your value proposition is to not define it in "operating" terms. You're not interviewing for the next big operational role where the decision rests largely on the results *you* can generate. Rather, your director role is about asking the right questions and supporting management to make the best decisions possible, not to prove you could do the job yourself. It's often said that the worst board director is an “operator who is not done operating,” so make sure your framing is correct.

If, as an operator, you’ve been in front of the board of your own company, that’s great experience that should also be reflected in your board bio, as it means you know what to expect, where the level the dialogue should be, and what the mindset of a board is in general.

3. What relationships do I have, and what relationships do I need, to get on a board?

This is the most important question of all because most board searches begin by asking current board members for recommendations. Therefore, it is crucial to be on the radar of as many people involved in answering that question as possible.

In short, your network is the most strategic and valuable asset in your arsenal. Conduct an audit of your network. Look for the people you know who currently serve on boards, as well as those who are part of the broader board ecosystem. For example, what CEOs do you know? Perhaps you have strong relationships with influential CFOs, heads of HR, or General Counsels?

Additionally, think about who you know in venture capital, private equity, and at investment banks. Are you networked with outside lawyers or partners at audit firms? And, of course, connect with recruiters. We are even seeing activists playing a role in director nominations, so ask yourself who in that arena aligns with your skills and value proposition.

Scan your network for any and all of the above and inform them of your desire to pursue board service.

4. How am I spending my time?

Like all campaigns, navigating your way to the boardroom is a journey. Unfortunately, that also means it is a time-consuming process.

When I was first looking for a board seat, I did an analysis of how I was spending my time. What I discovered was that I devoted a great deal of my “extracurricular time” to attending women’s events and Irish events —hardly optimal for targeting the board ecosystem. Once I realized the disconnect, I became judicious about the type of events I attended. By focusing on those closely related to the board world, I was able to actively reach into my network and learn as much as I could about what it would take to become a good director.

5. What current board members have a similar profile?

A final key piece of advice: after you've identified your skills, honed your value proposition, and activated your network, try to identify people already sitting on boards who have a similar background and skill set to your own.

Likely, these people are regularly approached about board opportunities. If they are already "overboarded," then they are in a great position to recommend you. But you must be on their radar in order to have any chance of getting your name passed along, so don't be shy about making contact!

Evaluate the opportunities ahead

As tempting as it may be to accept any opportunity that comes your way, I strongly encourage candidates to be thoughtful and patient about their first board selection. When evaluating opportunities, it serves you well to pause and consider the following:

- Deciding to join a board is a *long-term decision* that brings with it high levels of personal and professional liability. It's important to do your due diligence on the company, sector, and the board and management team before committing.
- This board becomes a part of your board identity and your *board brand.* As such, it may affect the types of opportunities you are presented with in the future. For example, if you aspire to sit on a Fortune 500 board, think long and hard before accepting a position on the private board of a small company, as many F500 companies don't consider the former to be an extrapolation for the latter.
- Make sure you are passionate about the company and industry. Being a conscientious and effective board director is no longer a part-time gig. It's your business to know about sector trends, the competitive landscape, and how customers feel about the

company's products and services. You are going to spend a great deal of time studying and reading about this organization, so you need to ensure it's something you'll genuinely enjoy.

- If public board service is your objective, then there's a limit to the number of boards upon which you can sit to remain in line with recommended best practices by the governance-watch bodies. Choose wisely.

And then there's the more extensive and subjective due diligence where only you can decide if the situation is right for you.

- Cultural fit is supremely important. Is the culture full of people who are collaborative, collegial, constructive, critical thinkers, and great communicators? Look for these five C's on the board, within the management team, and at the company in general.

- Make sure you are comfortable with the dynamic amongst the board directors and between the board and management team. As much as we would like everything to trend "up and to the right," the fact of the matter is: there will be turbulence, and one-day you will find yourself in the foxhole with these directors, so ensure they are people with the skills, experience, culture, and commitment to shepherd and govern the company during those times.

- As a practical matter, consider the time commitment and the travel required. You only have so much capacity.

- Speaking of capacity, industry also matters. For example, financial institutions are subject to strident regulatory environments that can carry a far greater workload with more extensive committee duties than other sectors. Do you have the bandwidth to match the requirements?

- The age-and-stage of a company can also affect the degree to which the board is involved in the day-to-day operations of the business. Does this opportunity match your expectations for your first board position?

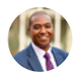
All on board

The tools and questions above are designed to help you formulate your own unique boardroom campaign. As with so many decisions, the only person who can truly determine your fate is you. But whatever you do, make sure you continue to seek out and speak to directors. The more you know about the opportunities and challenges that board work represents, the better prepared you will be to land that first seat as a director.

Board service is a great privilege with work that is highly rewarding and engaging. Whether you see it as a way to further enhance your capabilities as an operator, or as a whole new chapter professionally, the opportunity will undoubtedly bring as much value to you, as you to it.

03 Aug 2020

How to Get on Your First Corporate Board



Conrad Woody

This short paper is derived in part from a presentation delivered by Odgers Berndtson partners Mary Francia and Conrad Woody to Leadership Council on Legal Diversity on July 21, 2020.

About Corporate Governance

Types of boards

There are different types of boards—seed/early stage, later stage, private, public, nonprofit, and advisory—and each has different goals, operating procedures, challenges, and expectations for their board members. A startup or early-stage company, for example, typically expects its board members to contribute knowledge—things like how to turn an emergent technology into a business plan, how to scale upwards, or how to court investors. Public boards, meanwhile, expect directors to be stewards of the company's long-term strategy, advisors to the CEO and executive team, monitors of company performance, and public faces for the company.

When looking for your first board position, it's important to be familiar with these differences. You also need to decide what kind of board you're interested in serving on, and what type of board will be best served by your presence on it.

The mandate

The chief goal of the corporate director is to create and protect value for the shareholders; directors do this by guiding strategy, monitoring the financials of the company, managing human capital (especially leadership), and overseeing risk.

In executing this mandate, board members face three main challenges.

1. Information: Boards have to be on guard against "window dressing"—i.e., information that is impartially curated and filtered in ways that veil the actual health of the company and the viability of its strategy. This often means that directors have to go out of their way to be knowledgeable about the company's performance and fact-check the information they receive. Board members, therefore, need to be able to distinguish between background noise and warning signals.

2. Group dynamics: The board is not your typical leadership team and working together is essential, but it's not always easy.

3. Time management: The average corporate director spends 240 hours a year on board work—that's six forty-hour weeks, excluding travel. And in times of crisis, that six-week-a-year commitment can turn into a full-time role. Far too many new directors underestimate the amount of time they will have to devote to the job, so it's crucial before you begin looking for a director role, to calculate the feasibility of this commitment honestly.

Fiduciary duties

Boards have three primary duties against which their goal of long-term stewardship and resilience is measured:

1. The duty of care (fiduciary and legal responsibility). It sounds like common sense, but directors have a legal obligation to care about their company's health and to act upon that care. They need to act in good faith, on an informed basis, and honestly believe that the actions they take are in the best interest of the company.

2. The duty of loyalty. As is implied above, directors need to be loyal to the company, not to themselves. In other words, directors shouldn't take advantage of the information available to them because of their role as a board member. Board members can face jail time for offenses such as insider trading.

3. The duty of candor. Directors are duty-bound to make full disclosures of pertinent information to other directors, management, and shareholders—regardless of how unpopular or personally inconvenient that information might be.

Director liabilities

There are three primary protections for corporate directors.

1. Exculpatory provisions, located in some corporations' charters, provide that in the event of monetary losses or breaches in fiduciary duty, directors are not financially liable to stockholders.

2. Indemnification agreements can ensure that directors are not considered personally liable for losses sustained by the company.

3. Directors and Officers (D&O) Insurance can indemnify a director if they do suffer financial losses as the result of legal action brought about because of their directorship.

Director compensation

As of April 27, 2020, the average public company director's salary in the United States was $68,925, but the salary range typically falls between $53,080 and $85,149. Fortune 500 companies are much higher, with an average of $300,000. In Europe, director positions tend to pay less and they tend to be limited to cash retainers, while payment in the United States is generally distributed across multiple areas, including:

- Board cash retainers
- Board meeting fees
- Committee pay
- Board full value stock
- Board stock options

Board diversity trends

Board renewal rates are rising, which means that there are more board seats available to candidates at any one time. Many of these new seats are being filled by candidates whose race, ethnicity, gender, sexual orientation, and nationality lie outside the traditional director profiles, i.e., a white male with finance or CEO experience. The percentage of women board members has risen over the past two decades; Europe is a leader in this regard, with 42% women directors in France. In contrast, only 27% of U.S. directors are women, which indicates that there is still a significant amount of improvement to be made. Ethnic diversity is also on the rise, but it's growing at a slower pace.

How to Get on Your First Corporate Board

Seven steps for getting board ready

Step one: Know your motivations. By knowing why, you want to join a board, you can better identify what kind of board role you're best suited and what types of companies and boards that you should consider.

Step two: Identify your proposition. This is harder than it sounds, and it often involves doing some serious self-evaluation. On the positive side, you need to identify both what value you can bring to a board—what specific skills and behavioral traits make you stand out from other prospective board members. But you also need to build a clear picture of the skills, experiences, and knowledge that you don't yet have—then go about filling in those holes, either by taking classes or changing roles or jobs. Looking for firms that offer leadership development and succession planning programs can be a massive benefit for prospective board members.

Step three: Know where you're needed. This, too, is harder than it sounds, because director expertise is often relevant outside of the specific industry from which it comes. Finance experts, for example, are highly sought out in non-financial fields—as are technology experts, supply chain experts, and others. Sometimes your expertise may be in high demand in spaces you haven't considered.

Step four: Write a board CV or bio and tailor it to each board. Just as you might slightly (and truthfully) adjust the emphasis of your resume depending on what board you're interested in; you need to adapt your CV to highlight the specific skills, experiences, and traits that will be appreciated by specific boards. In addition to your skills, your CV should outline your motivations, the value you expect to bring to a board, and the specific kind of role you expect to play on the board in question.

Step five: Control your image and reputation. In searching for your first board, you're trying to project a persona. You can influence your online persona by publishing articles, appearing in interviews, and, conversely, by ensuring that you come across as calm, mature, and balanced in all online appearances. This is a career-long project.

Step six: Make your interests known. The best way to get on a board is by networking, so it's important to tell your acquaintances—especially those who currently sit on boards—that you're interested in a board position. At the very least, these current directors can offer you guidance or act as references. In the best case scenario, they may be able to introduce you and help bring you onto their board when a vacancy comes up.

Step seven: Network responsibly. When self-marketing, it's essential to put yourself out there while not seeming pushy. You don't want to appear self-serving or monomaniacal. Attend events, engage with people, and expand your network—these actions will get you seen over time. That said, you should be selective in your networking; some networks are right for your reputation, others less so.

Know what boards want: competencies

For decades, financial expertise, executive experience, and prior board experience were the most desired skillset traits for prospective boards. Recently, however, responding to a widened array of risks, business complexity, technological disruptions, and social and environmental obligations, companies are bringing a diverse suite of expertise onto their boards, including, among other things, expertise in international politics, sustainability, national security, strategic development, and information technology. This has opened whole new sectors of the workforce to board positions at the highest level.

Currently, the main fields of expertise for boards are:

- Specific industry experience (i.e., expertise in the industry within which the company operates)
- Leadership experience (P&L)
- Strategy development
- Financial acumen (though, as noted, it's not the gold star qualification it used to be)
- Information technology
- International/global experience
- Government and regulatory (this is especially true for companies who often have to lobby or work across international lines).
- Corporate governance experience or knowledge (this can be gained either by serving on a board or by attending a board preparation program).

Know what boards want: mindsets

The duties of the board differ from that of the executive team in a number of crucial ways—as does the way these entities accomplish their respective tasks. No matter how communicative and team-oriented their style, the executive's role is to make decisions and see those decisions implemented. By contrast, the role of the board is to work towards decisions via a collaborative process that includes each member of the board. For this reason, board members must possess a certain suite of behavioral / mindset traits to be effective.

- Good directors are balanced judges. Because CEOs average about five years in their positions, but directors generally serve longer, the board gives the company stability of oversight, helping it weather executive transitions and retain continuity of purpose. One aspect of this, and one of the board's most important jobs, is judging the leadership team's fitness to steer the company.

- Good directors are skeptics. They are uncomfortable following impulses or gut reactions. They want to see the data and develop a fluent grasp of all the options before they make up their mind.

- Good directors are collaborators. The board as an institution relies on its members to correct each other's blind spots and those of the executives they oversee—and good directors, directors who value collaboration, thrive in this context.

- Good directors are socially savvy. They are adept at measuring personalities and know how to deliver information to different kinds of people. Like politicians, they need to be able to structure their advice around the emotional and intellectual needs of the people to whom it is addressed.

Writing your board bio

Your board bio is an opportunity to translate "what you've done" into "what you've learned." Ultimately, good board members are defined by their wisdom, by which we mean their ability to deploy a wide variety of relevant life experiences for the company's benefit. Your goal when writing your bio is to make it clear that you've got these experiences and that you're capable of using them judiciously.

Be sure to include explicitly:

- An introduction. This is a sentence or two that describes your current and/or recent experience in a way that also declares why you're interested in and ready for a board position.

- Your expertise. Be clear about what your primary and secondary knowledge is. If you're a CIO for a global industrial company, for example, you might emphasize that you're familiar with using technology to determine and drive strategy, then mention cybersecurity and international business as your secondary expertise.

- Other qualifications. Note whether you've got leadership, P&L, or governance experience. Also, note your education history and your work history (the information you'd see on a regular resume).

Tactically, your board bio should demonstrate your qualifications for a board position, and it should do this by presenting a vision of what you can do for each specific reader's board. For this reason, you should tailor your value proposition to individual board opportunities.

Building your brand

As noted above, a primary difference between recruiting directors vs. recruiting C-suite executives is that directors are recruited not because of what they have done in their careers, but for what they have learned in the process. Building your brand, therefore, requires an act of translation on your part: you need to demonstrate how you can be valuable to a board and then publicize that image so that recruiters can found it.

The process of building your brand is a lifetime commitment—and it has to take place in multiple avenues of your life. In addition to creating a board CV and marketing your interest in a board position within your professional network, you should make yourself known to the communities within which you serve and the causes you support. Being on a nonprofit board in the art world, for example, has multiple benefits to a prospective director: it gives you the kind of governance track record that ensures you appear in the modern technologized search algorithms. At the same time, it expands your network since many directors, and donors in the arts scene work in or sit on the boards of public or private companies.

Publicizing your brand

Because we're all connected by technology, it's essential to cultivate your digital brand. If you want to get noticed by a recruiter, you need it to make ridiculously easy for others to learn who you are, what you've done, and what you stand for. One way of doing this is to write and publish articles that testify to your thought leadership in a particular space. If you wrote, for example, about social justice, workplace health, or global supply chain issues in recent years, you might find your expertise in high demand right now.

Questions and Answers

Is there a benefit to joining a nonprofit board?

The honest answer is "it depends." The immediate upside of being on a nonprofit board (aside from the fact that it's an honor to serve on a nonprofit in whose mission you believe) is that it can provide you with board experience. Public, Private, and nonprofit boards all come with different board functions and fiduciary duties. Still, they, by and large, share the collaborative process that boards use to come to decisions, and this can be an invaluable experience to executives who want to find positions on boards.

Nonprofit boards are also great networking opportunities—and these networking opportunities can lead to other board positions at related nonprofits or even public companies. Sitting on the board of a local community arts organization, for example, may not in and of itself get you a public board appointment. But the contacts you gain at that local organization may help you get a position as a director at a larger nonprofit with a more extensive network of contacts —and ultimately you may find yourself on a board with people who also serve as executives or directors at large public companies—the exact people who are most likely to help you get a public board seat

Lastly, nonprofit board positions help you get seen by recruiters. The same kind of escalating progression (e.g., from a $5 million nonprofit board to $10 million nonprofit board, to $100 million nonprofit board) is what recruiters sometimes call a "pattern of excellence." Patterns like these demonstrate growth and—regardless of whether they pertain to governance experience, educational achievements, or responsibility progression—are critical indicators for recruiters.

How should lawyers position themselves for a board role?

Legal expertise at both the executive and board levels is primarily concerned with risk mitigation. The difference between a company's general counsel and the legal expert on their board is generally concerned with different risk timelines: The general counsel is putting out fires in the present tense; the legal expert on the board is looking for smoke on the horizon. Furthermore, general counsels are engaged in various management responsibilities such as compliance, mergers and acquisitions, labor relations, and government and public affairs—their skills can be very valuable to the audit committee and their management of strategy with enterprise risk.

This should inform the way lawyers position themselves as board candidates. As noted previously, one of the board's most important duties is to oversee the CEO and executive team. Several studies, however, indicate that this role is often overemphasized by underperforming boards, who also tend to underemphasize long-term strategy; the most effective boards, on the other hand, spend far more time thinking about and setting long- term strategy for the company than they do micromanaging the operations of the firm.

Lawyers who want to get on boards should emphasize this fact—and emphasize that any discussion of long-term strategy should be accompanied by a conversation about the long- term legal and compliance risk.

How can prospective board members approach executive recruiters?

There are several things to consider when approaching or working with executive recruiters.

1. Identify the recruiters that do board work in your space. A search professional who does board searches in the government services and nonprofit sector may not be especially helpful to someone who's identified that their primary value-add will be in the industrial sector.

2. Rather than seeking out search professionals and asking for their help, try to build the reputation and publicize your brand in such a way that (a) makes it easy for recruiters to find you while they're working on a search, or (b) makes it clear to recruiters that you are immediately viable as a candidate.

3. The best way to form long-term relationships with recruiters—as with anyone—is by helping them as sources of candidates for their prospective searches. This means serving as references when asked and leveraging your network to help them.

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Jun 21, 2018

The Five Most Common Mistakes Of Board Directors

Adam Bryant Contributor
I write about leadership and the changing role of corporate directors.

PHOTO BY DREW BEAMER ON UNSPLASH

Kevin Sharer knows a thing or two about serving on boards. During his 12-year tenure as CEO of Amgen, and across his 35 years of service on the boards of Chevron, Unocal, Northrop Grumman and 3M, he's seen good directors, bad directors, and the subtle dynamics that can derail boards or elevate them to high performance. To launch this new interview series on board dynamics, David Reimer, my colleague and CEO of Merryck & Co. Americas, a senior leadership development and executive mentoring firm, and I sat down with Sharer to get his insights.

Reimer: What's changing about the role of the director today, particularly after some of the headline scandals and crises at well-known companies?

Sharer: You will be held accountable in many ways and it may not be comfortable for you, and you probably should be uncomfortable. You also are expected to understand what's going on in the company, not merely react to what's presented to you. The "I didn't know" excuse is wearing thin. You should expect activists to come at you and you should be prepared for that, and the activists are not always wrong. You've got to have a more complete and robust view of the fitness of the CEO and how he or she is actually doing the job.

You also need to understand the organizational health of the company, in terms of culture and whether people are treating each other properly. The worst place to be in organizational health discussions is to have only anecdotes to talk about, because then you have no context. Healthy organizations will have frequent anonymous, electronic, representative, and well-analyzed checks on their social health. That way, you can say, "This is social data, not anecdotes." At Amgen, we asked employees every two years a list of 50 questions, and one of the questions was, "What do you think of the job the CEO" – that would be me – "is doing?" You also have to have a process and structure to surface, pursue and resolve all complaints, and do it in a way that ensures everybody who makes a complaint doesn't feel prosecuted or disrespected. You also can't have a culture where a complaint assumes guilt.

The companies that don't have that approach are just sitting ducks. You have to assume you've got organizational health issues. It's like being mayor of a small town. If you as a director don't realize this is your responsibility, and that you need processes and structures to give you data, shame on you.

Bryant: You've had decades of experience serving on boards. What are some of the key insights you've learned?

Kevin Sharer (photo by Russ Campbell for Harvard Business School)

Sharer: A crucial issue is the dynamic between the board and the CEO. Does the CEO see the board as a formal point of governance but not a real source of power, counsel or even relevance? That was the historical view. And many board members felt gratitude for the prestige of being on the board, for the opportunity to be on the inside. And for some board members, the compensation was important to them.

And so, by their own attitudes, they perpetuated this idea of the board as sort of a governance, check-the-box group, but not really active in any meaningful way about the company's performance or the CEO's job performance. That attitude might have persisted for many companies up to and through the '90s. Then, for reasons that we all know, things started to change and boards started to realize they had some kind of role in the leadership of the firm.

Some boards started to think they were there to be almost a shadow management force, and that they should actually lead. I think that's gigantically unhealthy because boards don't have context. They show up in a room maybe six times a year, and they hear very thoughtfully presented information by people who are on their best behavior. Good directors get information from other places, but they're not really in a position to lead.

I would come to the boardroom with the attitude that the board's in charge. We are like the Supreme Court. And every day you're trying to make only a few judgments: Is this company performing for shareholders? Do we have a healthy environment – including social factors, compliance factors, legal factors? And does this CEO have the judgment, deportment, and personal characteristics to lead this company? I don't come to the meeting with a prosecutorial view that that the answer is no to those questions and that it's my job to prove that I'm right. But I'm alert to the responsibility I have that those are the key questions.

The other thing I learned with boards is that even though there may be 12 directors, three or four people are always in charge. This is not a bad thing. What I mean by "in charge" is that nothing of consequence is going to happen unless these four people agree. These four people have, in effect, collective veto power, and that's a little bit of a check on other directors who may be confused about what they should be advocating for. The four people typically are the lead director, chairman of the comp committee, chairman of the audit committee, and chairman of the governance and nominating committee. The centrality of these four people is not well understood.

Reimer: What role did you play on the board, beyond your official titles?

Sharer: I would be the person who would ask the questions that were on everybody's mind but nobody would ask. I would always be respectful and supportive and empathetic about the complexity and challenges of the role of the CEO. But I would never be cowed or awed, and over time I earned more credibility as an advisor, because I was the guy in the room who'd done the job.

There were times when I pushed the questioning further than it needed to go, and I might have made the management a little bit uncomfortable. But my goal was to develop a very strong, trust-based, personal relationship with the CEO. And I would try to convince the CEO that, unquestionably, I was an advisor and coach for them. Some CEOs would find that gigantically helpful. Others would pay lip service. When this works well, you can make a real contribution as a director. You can also give the CEO courage to do what he or she needs to do, knowing that there's air cover from the board.

Bryant: What are the five most common mistakes that you've seen directors make?

Sharer: One, they don't do their homework, so they just come in with opinions, and they think they somehow have been promoted to omniscience. Two, they don’t understand the social dynamic and culture of the board, and they try to advance a position before understanding what the group dynamic is. Three, not realizing where the power on the board really lies. Four, not investing the time with the CEO to truly gain their trust and understand what they’re trying to do. And five, not understanding that there are really only three questions, as I mentioned, that the board is there to monitor.

Reimer: What is the board’s role in making sure the company is developing a leadership bench?

Sharer: Every board I was on was quite aware of their responsibility to be a check on centrally important questions: What’s the health of our CEO-ready pipeline? Is anybody ready now? Will anybody be ready in two years? How many? How real are they? We don’t want a Potemkin village of CEO candidates, so when the time comes nobody is ready to step up. You also have to have a capable and diverse leadership pipeline.

There’s an added challenge in that boards are approving strategies that look radically different from the ones they have been approving in years past, and yet the leadership pipeline maybe hasn’t changed to reflect the new operating environment.

In strategy, there are classic mistakes that get made, which tie into this leadership development question because you want somebody to either blow the strategy up or implement it. I don’t think most boards understand the strategy that the company’s pursuing. And the company itself may not understand the strategy it’s pursuing.

Because the one question I find that CEOs have the most difficulty answering is, “What’s the big idea?” They can’t answer it. What is a succinct statement of strategy that’s clear, understandable, and accurate? They don’t know. And the real strategy is very often kind of “muddle through.”

It’s incumbent upon the CEO to be able to say, “I want to tell you with as much clarity as I possibly can the big idea that we’re pursuing around here, and the bets we’re going to make. Then we’ll talk about the steps that we’re going to take to implement this strategy, and how we're going to know over a certain period of time whether it's actually happening, and what the real challenges are that we're facing." Instead, there's a tendency not to clarify in companies. There's a tendency to obfuscate. In my experience, few CEOs can describe their strategy succinctly, and virtually nobody does it in practice.

Bryant: That would seem to be table stakes for being a CEO.

Sharer: But it's not easy, and it takes clarity of thought. Also, the entire ecosystem works against simplicity. Smart people sometimes want to make things complicated. And sometimes the CEO wants to have a power imbalance between management and the board. The best way to do that is to snow the directors. It's also risky for the CEO to simplify the strategy, because you're capturing the essence of the company's direction, and you don't have a lot of maneuvering room. You're introducing accountability.

Reimer: If you were being recruited for a director's job, what questions would you ask the CEO as part of your due diligence?

Sharer: I'd ask the lead director: What are the current areas of greatest concern to the board and how do they investigate them? What are the points of tension between the CEO and the board? What's the dynamic within the board and where's the power?

Bryant: How much time should CEOs be spending with their boards?

Sharer: If you have the right people on the board and you have the right relationships with them, and if you have the right shared reality with them, it might be five or ten percent of your time. If you're in a difficult spot in some way, you could spend 20 percent of your time or more. I know CEOs who have been brought down because they couldn't get that.

As a CEO, you have to develop political capital because there will always be a time when you are going to need it. The board is like a collection of your really smart aunts and uncles who care about you. But the big difference is that they could fire you.

I am the managing director of Merryck & Co., a senior leadership development and executive mentoring firm. Before joining Merryck in 2017, I was a reporter, editor and columnist at the New York Times and interviewed more than 500 CEOs for "Corner Office," a weekly series... MORE

HEIDRICK & STRUGGLES

CEO & BOARD PRACTICE

The Heidrick & Struggles Board Monitor

APPOINTMENTS OF WOMEN TO BOARDS HIT RECORD HIGH

More than 38% of all independent board seats filled by Fortune 500 companies in 2017 went to women. That's the largest percentage of new female directors since we began tracking the figure in 2009—yet progress remains slow.

Key findings

In 2017, Fortune 500 companies filled 358 vacant or newly created board seats with independent directors. Few leadership positions are more consequential: Fortune 500 boards oversee companies that together account for two-thirds of the US GDP, with $12.8 trillion in revenues, $1.0 trillion in profits, $21.6 trillion in market value, and 28.2 million employees worldwide. That is why for the ninth consecutive year we have captured the key attributes of new appointees—their demographics, experience, and functional roles, among other factors; mapped how those attributes flowed onto boards in each industry; and identified trends in their continuing evolution. Following is what we found.

A record year for appointments of women but only slight improvement in gender composition of boards

Since Board Monitor began tracking new appointees to the boards of Fortune 500 companies, we have seen nothing more striking than the upsurge in appointments of women in 2017. Of the 358 vacant or newly created board seats filled last year, 137—a little more than 38%—went to women. Those numbers represent a notable set of superlatives:

- The figure of 38% marks the highest proportion of women appointed to boards in the nine-year history of Board Monitor.
- The 2017 figure of more than 38%, versus less than 28% for 2016, is the biggest year-on-year increase we have ever recorded—a jump of more than 10 percentage points, far bigger than the next-largest such increase of a little over 3 percentage points.
- The figure of 137 appointees is the largest absolute number of female appointees in the past nine years, comfortably above the next-highest figure of 119 in 2015 and more than two and a half times as large as the low of 54 in 2010.

Nevertheless, the percentage of women on Fortune 500 boards rose only to 22.2%, up only 1.2 percentage points from the figure of 21% the previous year.[1]

Ethnic and racial diversity make modest gains

In the aggregate in 2017, African-Americans, Hispanics, Asians, and Asian-Americans constituted about 23% of new board appointees, the highest proportion since the inception of Board Monitor, coming on the heels of the previous high of 22% in 2016.

- The share of new board appointments that went to African-Americans rose from 9% in 2016 to 11% in 2017, the largest increase ever.
- The share of new board appointments that went to Hispanics remained at 6%, the high it first reached in 2016.
- The share of new board appointments that went to Asians and Asian-Americans remained at 6%, the same as in 2016.
- One Native American was appointed in 2017, the first in the nine-year history of Board Monitor.

[1] 2020 Women on Boards Gender Diversity Index, 2011–2017, 2020wob.com.

Signs of board refreshment

In addition to this year's data showing an upsurge in appointments of women and modest gains in racial and ethnic diversity on boards, additional findings suggest that the pressure in recent years to bring new perspectives to boards may be bearing fruit:

- Almost 36% of new board appointees in 2017 had no previous board experience, up from 25% without any in 2016.
- While the total number of board seats has been declining over the past five years, from a high of more than 5,300 in 2012 to 4,747 in 2017, the percentage of seats held by newly appointed directors overall has generally been trending upward: 7.5% in 2017, 9% in 2016, and 8.5% in 2015, having never risen above 7% in previous years.
- Current and former CEOs accounted for 47% of director appointments in 2017, down from 50% in 2016, 54.4% in 2015, and well below the high of nearly 55% in 2013, suggesting that boards are beginning to look beyond their traditional first choice of CEOs to fill vacant seats.
- Some 72% of newly appointed directors in 2017 had international experience, an increase of 11 percentage points over the previous year.

Financial experience remains in great demand

- As in the previous two years, financial services know-how was the most widely distributed career experience among newly appointed directors, representing almost 24% of their collective mix of career experiences.
- Those financial services experiences were widely distributed, with 30% of those experiences going to industrial boards, 25% to financial services boards, 19% to consumer boards, 10% to business services boards, and 10% to technology boards.
- Of all the significant career experiences newly appointed women brought to boards in 2017, 25% were in financial services, far outpacing business services, consumer, and industrial experience, each of which represented 18% of their collective career experiences.

Observations

Based on the findings in this report and our experience working with boards, we offer the following observations:

- **Progress for women remains incremental, despite the great increase in female appointments in 2017.** Because the percentage of women overall on boards increased only slightly, it appears that most of these new female appointees were replacing women who had left their boards.

- **The modest gain in aggregate ethnic and racial diversity continues a longer-term trend in such appointments.** Over the four-year period 2009–2012, the aggregate proportion of African-Americans, Hispanics, Asians, and Asian-Americans appointees averaged under 16%. However, in the ensuing five-year period, 2013–2017, the proportion averaged almost 21%, indicating some progress.

- **The signs of board refreshment suggest that boards are beginning to acknowledge the increasing need for agility.** Now more than ever, companies must be able to spot opportunities and threats sooner, adapt and pivot faster, and recover from setbacks quickly. For boards that recognize that reality, board recruitment will increasingly mean board refreshment—continually making sure that the board is composed of diverse members whose experiences, competencies, and perspectives provide the optimal mix for overseeing the company at each point in its evolution.

- **The perennially high demand for financial experience is no longer primarily for the audit committee.** When seeking financial experience in the past, boards typically looked for classic finance skills such as expertise in capital structure. Increasingly, however, boards are looking for investment skills, an understanding of equities markets, and a firm grasp of asset management in order to be prepared for the ever-present threat of activists.

ABOUT BOARD MONITOR

Snapshot of 2018 findings

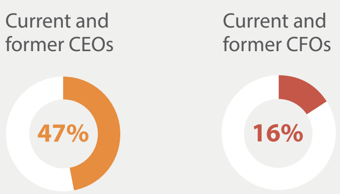
Produced by Heidrick & Struggles' CEO & Board Practice, Board Monitor tracks and analyzes trends in non-executive director appointments to Fortune 500 boards. Data on appointments are tracked through BoardEx, proxy filings, and corporate websites. Information about executives is gathered from publicly available sources, BoardEx, and a Heidrick & Struggles proprietary database.

New director seats filled[1]

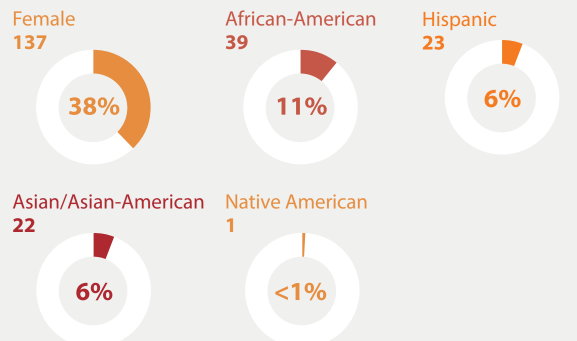
358

Average age

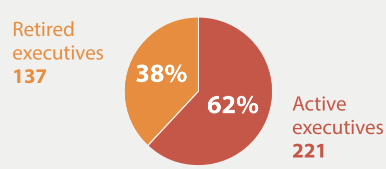
57



Diversity breakdown



Retired vs. active



Experience

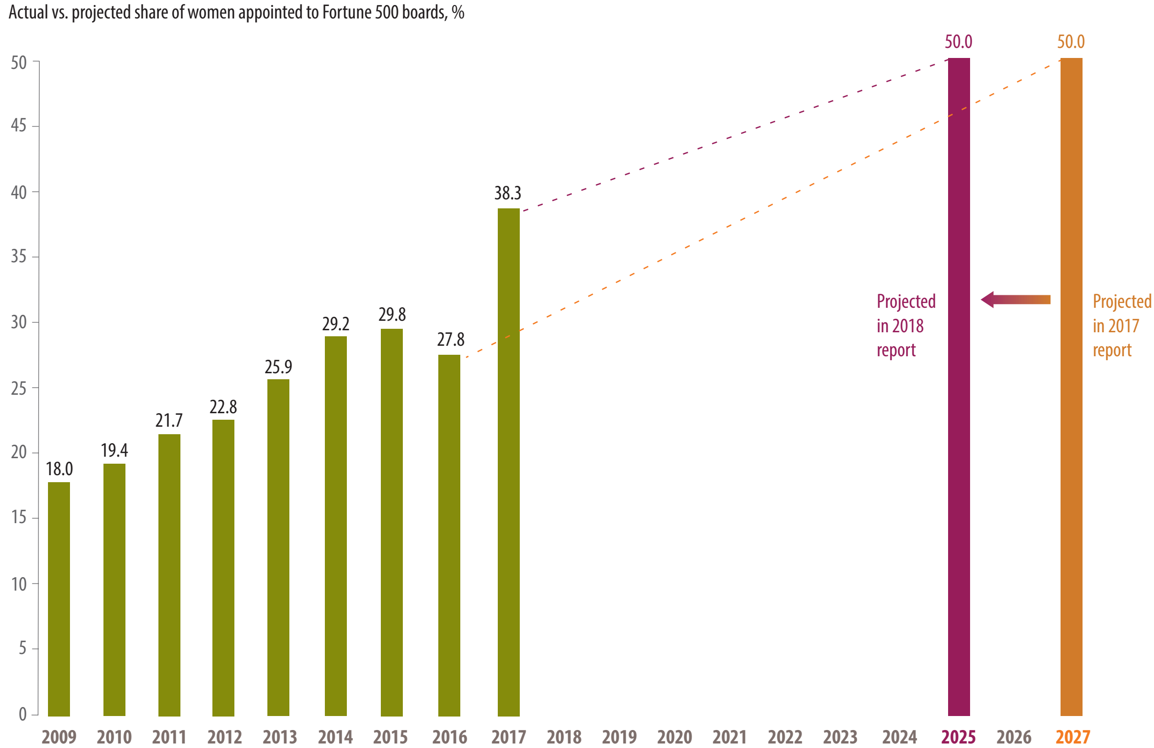
[1] Total non-executive director seats, as of May 2018 = 4,747.

Progress toward gender parity regains momentum

In last year's Board Monitor, we reported that the percentage of women appointed to boards failed to rise for the first time since the inception of Board Monitor in 2009, ending a seven-year run of year-on-year gains. Extrapolating the data for 2016 using a three-year trailing average method, it appeared that women would not reach parity with male director appointments until 2027. In each of the two previous years, 2015 and 2014, the projection for reaching parity, using the same method, would have been 2025. Now, we once again project that women will first reach parity with men with the new class of directors in 2025 (Figure 1).

Figure 1: **The pace of change has accelerated for women to reach parity with men on boards.**

Actual vs. projected share of women appointed to Fortune 500 boards, %



The figure of 38% for non-executive director appointments of women may seem to pale in comparison to some of the figures recorded in other parts of the world (see Heidrick & Struggles' Board Monitor Europe[2] and the forthcoming Board Monitor Asia). For instance, among the leading companies in France and Germany, the share of female non-executive appointments was 54% and 61%, respectively, for

[2] Heidrick & Struggles, *The Heidrick & Struggles Board Monitor Europe*, April 25, 2018, heidrick.com.

2016. Among the leading companies in Australia, the figure was 39% in 2017. But because the formal requirements and informal pressures to appoint women differ across these locales and from those in the United States, simple comparisons are difficult. Nevertheless, in those countries and the United States, the tide seems to be running in the right direction.

Where newly appointed women came from, by function or background

The functional composition of the 2017 class of female appointees aligns with the strong tendency of boards to prefer candidates with general management experience. Some 38, or 28%, of newly appointed women were current or former CEOs, and some 35, or about 25%, were current or former group presidents, division heads, managing directors, or managing partners. Four new appointees were current or former COOs. Some 8, or about 6%, were current or former CFOs.

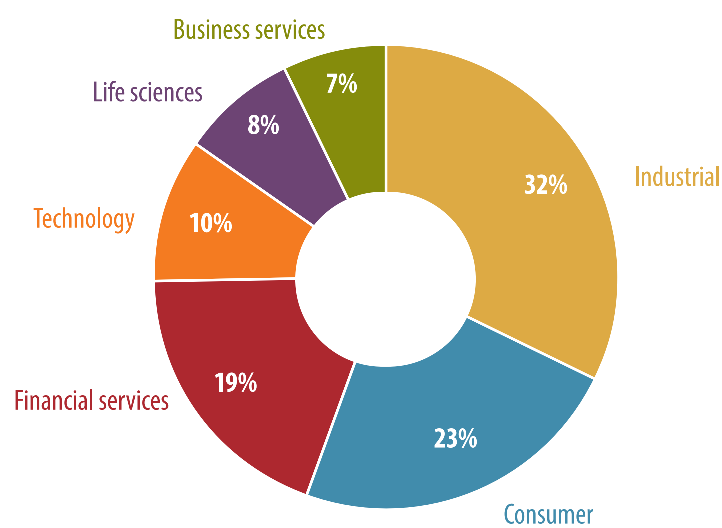
The largest contingent of new appointees from outside business came from government, with the appointment of 10 retired officials, representing a little more than 7% of female appointees. Some 8, or about 6%, were current or retired academics.

Where newly appointed women went, by industry

Some 44 of the 137 director positions filled by women in 2017 were on industrial boards, followed by consumer boards, with 32, and financial services boards, with 26 (Figure 2). In 2016, of the 117 director positions filled by women, 35 went to consumer boards, followed by industrial boards, with 28; financial services boards, with 17; and technology boards, with 16.

Figure 2: **Distribution of women appointed to Fortune 500 boards, by industry, 2017**

n = 137

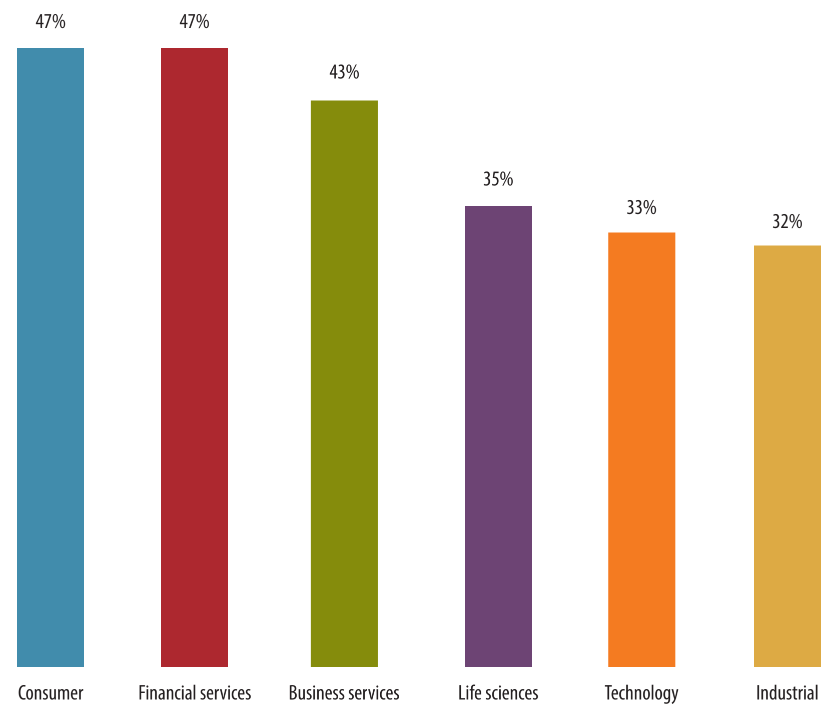


Note: Numbers may not sum to 100%, because of rounding.

While industrial boards appointed the largest number of women overall in 2017, those appointments totaled only 32% of all new board seats in the industry, which was nevertheless an increase of 11 percentage points over the previous year (Figure 3). In the consumer sector, 47% of all new board seats went to women, an increase of 21 percentage points. Women also received 47% of new appointments on financial services boards in 2017, an increase of 19 percentage points over 2016.

Figure 3: **As a proportion of total seats filled, the financial services and consumer sectors appointed the most women directors in 2017.**

Proportion of new board seats, by industry, filled by women



	Consumer	Financial services	Business services	Life sciences	Technology	Industrial
Seats	32	26	10	11	14	44

"Remember, you have a seat at the table. You have been invited to join the board and are expected to contribute. The board wants and needs your perspective."

—**Stacy Brown-Philpot,** CEO of TaskRabbit and director at HP Inc. and Nordstrom

The career experiences women brought to boards

Twenty-five percent of all the significant career experiences newly appointed women brought to boards in 2017 were in financial services, 18% in business services, 18% in consumer, and 18% in industrial.

How was that mix distributed among boards? Some 27% of these appointees' collective financial services experience went to financial services boards, 25% to consumer boards, and 23% to industrial boards. Of their business services experience, 32% went to industrial boards, followed by financial services and technology boards, each with 24% of those experiences. Of their collective consumer experience, 37% went to consumer boards, followed by business services and industrial, each of which acquired 18% of that consumer experience. Of their collective industrial experience, 56% went to industrial boards and 21% to consumer boards.

Racial and ethnic diversity edging up

In the aggregate in 2017, African-Americans, Hispanics, Asians, Asian-Americans, and Native Americans constituted almost 24% of new board appointees, the highest proportion since the inception of Board Monitor in 2009, coming on the heels of the previous high of over 22% in 2016 (Figure 4).

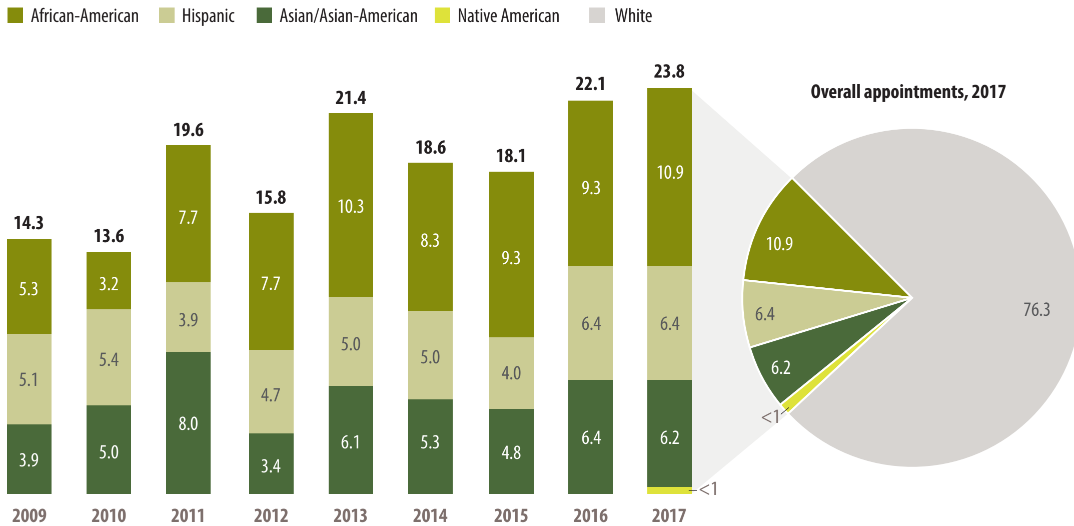
Full analysis of the numbers for 2017 yielded the following results (Figure 5):

- The proportion of new board appointments that went to African-Americans rose from 9% in 2016 to 11% in 2017, the largest share ever. Some 33% of all African-American appointees went to industrial boards, the same as last year; 23% went to consumer boards; and 21% to financial services boards. In terms of the total number of board appointments by industry, African-Americans assumed more than 16% of available seats on life sciences boards, more than 14% of available seats on financial services boards, and more than 13% of available seats on consumer boards. The three most widely distributed significant career experiences among African-American appointees were in business services, 23%; technology, 21%; and industrial, 17%.

- The share of new board appointments that went to Hispanics remained at 6%, the high it first reached in 2016. Almost 35% of all Hispanic appointees went to industrial boards, almost 22% to consumer boards, and more than 17% to financial services boards. In terms of total appointments by industry, Hispanics assumed almost 9% of available seats on business services boards, a little more than 7% of available seats on consumer boards, and 7% of available seats on financial services boards. The three most widely distributed significant career experiences among Hispanic appointees were in financial services, 24%; consumer, 22%; and business services, 19%.

- The share of new board appointments that went to Asians and Asian-Americans remained at 6%, the same as in 2016. Some 27% of Asian and Asian-American appointees went to consumer boards, 27% to technology boards, and almost 23% to industrial boards. In total appointments by industry, Asians and Asian-Americans assumed almost 14% of available seats on technology boards and almost 9%

Figure 4: **New board director appointments, by ethnicity, %, 2009–17**



Note: Numbers may not sum to 100%, because of rounding.

Figure 5: **Distribution of new director appointments, by industry, 2017**

Note: One Native American director was appointed to an industrial board in 2017. Numbers may not sum to 100%, because of rounding.

of available seats on both consumer boards and business services boards. The three most widely distributed significant career experiences among Asian and Asian-American appointees were in technology, 26%; financial services, 23%; and industrial, 17%.

- In addition, one Native American appointee—the first in the nine-year history of Board Monitor—joined an industrial board.

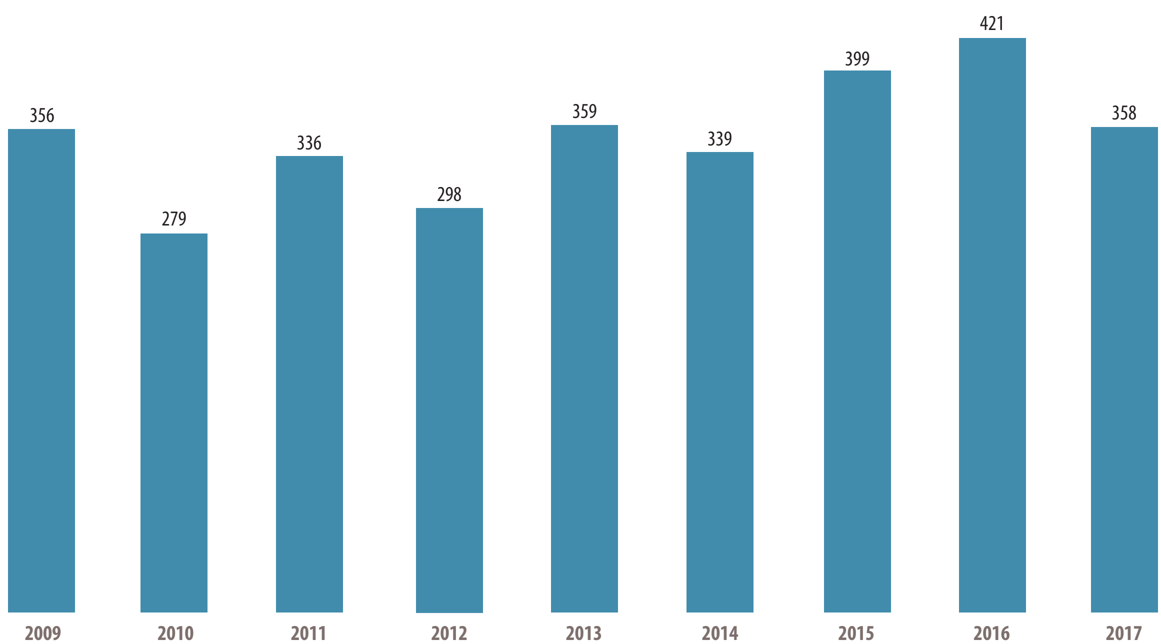
Shrinking boards and more new directors

For the five-year period 2009–2013, the total number of board seats averaged 5,254 per year, with a high of 5,319 in 2012 and a low of 5,140 in 2010. In the ensuing four-year period, 2014–2017, the average dropped to 4,763 seats, with a low of 4,609 in 2016 and a high of 4,998 in 2014.

Meanwhile, for the four-year period 2009–2012, the number of new directors appointed per year averaged 317. In the ensuing five-year period, 2013–2017, the number of new directors appointed per year rose to an average of 375.

With the number of seats trending downward and the number of appointments trending upward, the percentage of total seats held by newly appointed directors has begun to show upward momentum. For the four-year period 2009–2012, the percentage of total seats held by newly appointed directors averaged 6%, with a high of 6.7% in 2009 and a low of 5.4% in 2010. For the ensuing five-year period, 2013–2017, the rate averaged 7.7%, with a high of 9.1% in 2016 and a low of 6.7% in 2014.

Figure 6: **Number of new director appointments, 2009–17**



"Different perspectives, backgrounds, and experiences around the board table lead to richer discussions, more robust debates, and more thoughtful outcomes."

—**Pat Russo,** chairwoman of Hewlett Packard Enterprise and director at General Motors, KKR Management, and Merck & Co.

Share of CEO director appointments drops for second consecutive year

Current and former CEOs accounted for 47% of director appointments in 2017, down from 50% in 2016 and well below the all-time high of nearly 55% in 2013. Of the 167 current or former CEOs appointed to boards in 2017, 129, or 77%, were men and 38, or 23%, were women.

Current and former CFOs accounted for 16% of new appointments in 2017, the same as in 2016 and consistent with the yearly average of 16% for 2009–2016. Of the 59 current or former CFOs appointed to boards in 2017, 51, or 86%, were men and 8, or 14%, were women.

Current and former CEOs and CFOs together accounted for 63% of director appointments in 2017, down from 66% in 2016 and well below the all-time high of 73.2% in 2015.

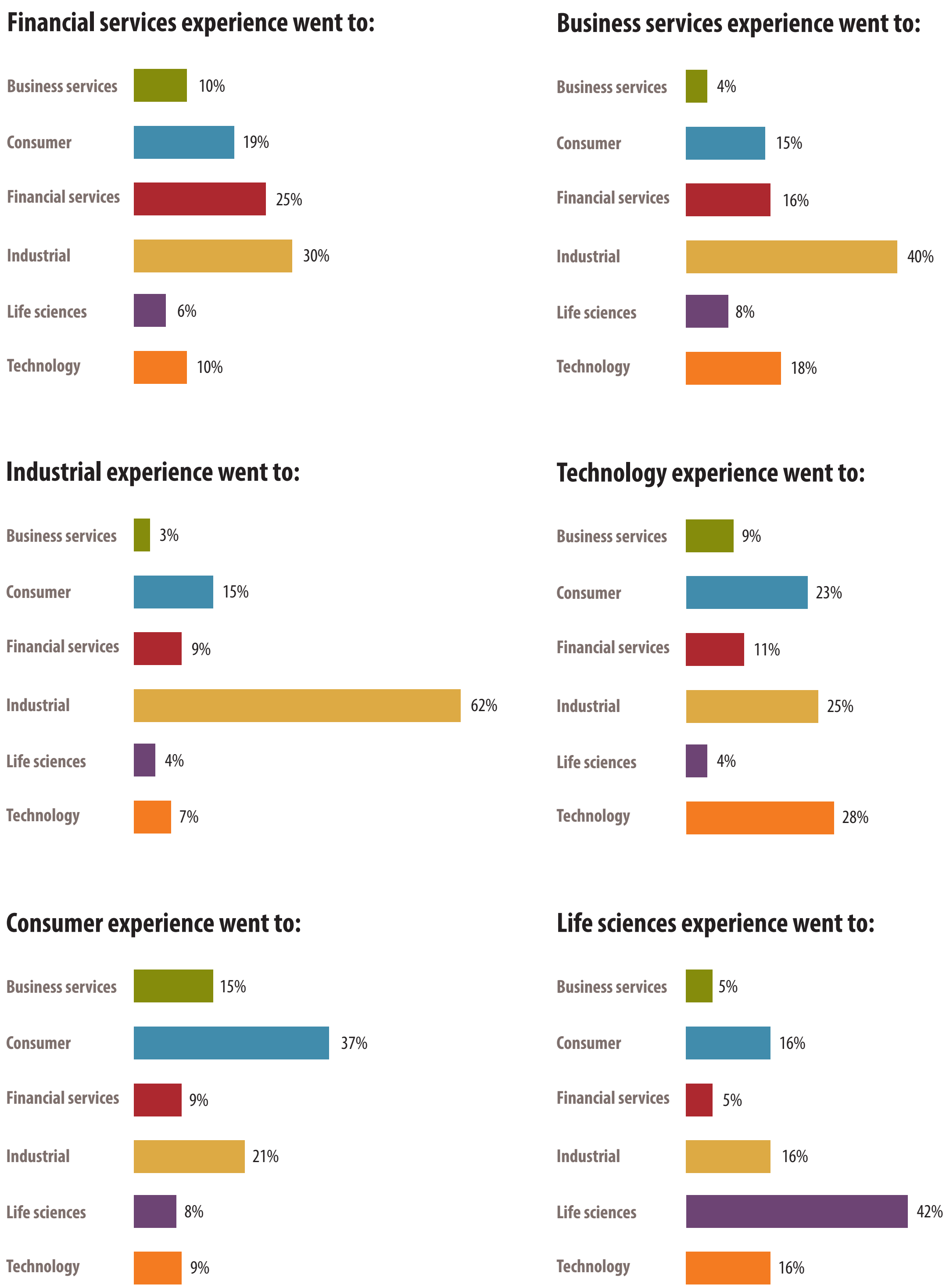
How career experiences were distributed among new appointees

For the fourth consecutive year, in tracking the movement of new appointees to their new boards, we took into account all of the significant industry experiences of each director (Figure 7). (For example, a new director who has worked most recently in the consumer industry may also have valuable experience in the industrial sector or in technology.) This more comprehensive picture of the skills of new directors looks like this:

- As in the previous two years, financial services know-how was the most widely distributed career experience among new directors, representing almost 24% of their collective mix of career experiences. Some 30% of financial services experience went to industrial boards, 25% went to financial services boards, and 19% to consumer boards.

- Industrial experience, at 23%, was the second most widely distributed career experience among new directors. More than 62% of industrial experience went to industrial boards, about 15% went to consumer boards, and 9% to financial services boards.

Figure 7: **Distribution of career experience, by industry, 2017**



Note: Numbers may not sum to 100%, because of rounding.

- Business services experience, at 19%, was the third most widely distributed career experience among new directors. Almost 40% of that experience went to industrial boards, almost 18% went to technology boards, and about 16% to financial services boards.

- Life sciences experience, at about 7% of the collective mix of career experiences, was by far the least widely distributed career experience among incoming directors, exceeded by technology experience, at about 13% of the mix, and consumer, at just over 14%.

"Nominating and governance committees should look beyond usual channels to find candidates who may not have the typical 'board-relevant' resume but who bring strong leadership experience and a unique perspective to the position."

—**Peter Henry,** W. R. Berkley Professor of Economics & Finance and dean emeritus of NYU's Stern School of Business and director at Citigroup, National Bureau of Economic Research, and Nike

The expertise boards acquired

Also as in the previous three years, we mapped the prevalence of substantial career experiences that flowed onto the boards in each industry, producing a more nuanced picture of the experience that boards actually acquired:

- Of the total industry experiences acquired by **financial services boards,** 41% were in financial services, followed by business services, 21%; industrial, 15%; technology, 11%; consumer, 9%; and life sciences, 2%.

- Of the total industry experiences acquired by **industrial boards,** just over 39% were in industrial, followed by business services, 21%; financial services, almost 20%; technology, 9%; consumer, 8%; and life sciences, 3%.

- Of the total industry experiences acquired by **life sciences boards,** almost 36% were in life sciences, followed by business services, 18%; financial services, almost 16%; consumer, 13%; industrial, 11%; and technology, 6%.

- Of the total industry experiences acquired by **consumer boards,** more than 26% were in consumer, followed by financial services, almost 23%; industrial, 17%; technology, 15%; business services, 14%; and life sciences, just under 6%.

- Of the total industry experiences acquired by **technology boards,** 28% were in technology, followed by business services, 25%; financial services, 17%; industrial, 11%; consumer, 10%; and life sciences, almost 9%.

- Of the total industry experiences acquired by **business services boards,** almost 33% were in financial services, followed by consumer, 28%; technology, 15%; business services, 10%; industrial, 10%; and life sciences, 5%.

> *"While it's definitely an advantage to have board members with industry experience, nearly all industries are experiencing transformation and have common themes. In the boardroom, that type of knowledge and experience is also extremely valuable."*
>
> —**Ted Craver,** director at Duke Energy and Wells Fargo

First-time directors

Almost 36% of new board appointees in 2017 had no previous board experience, up from 25% in 2016 (Figure 8). Of those first-timers in 2017, almost 43% went to industrial boards, about 20% to consumer boards, and a little more than 17% to financial services boards. The three most widely distributed career experiences among them were financial services, 22%; business services, 22%; and industrial, 20%.

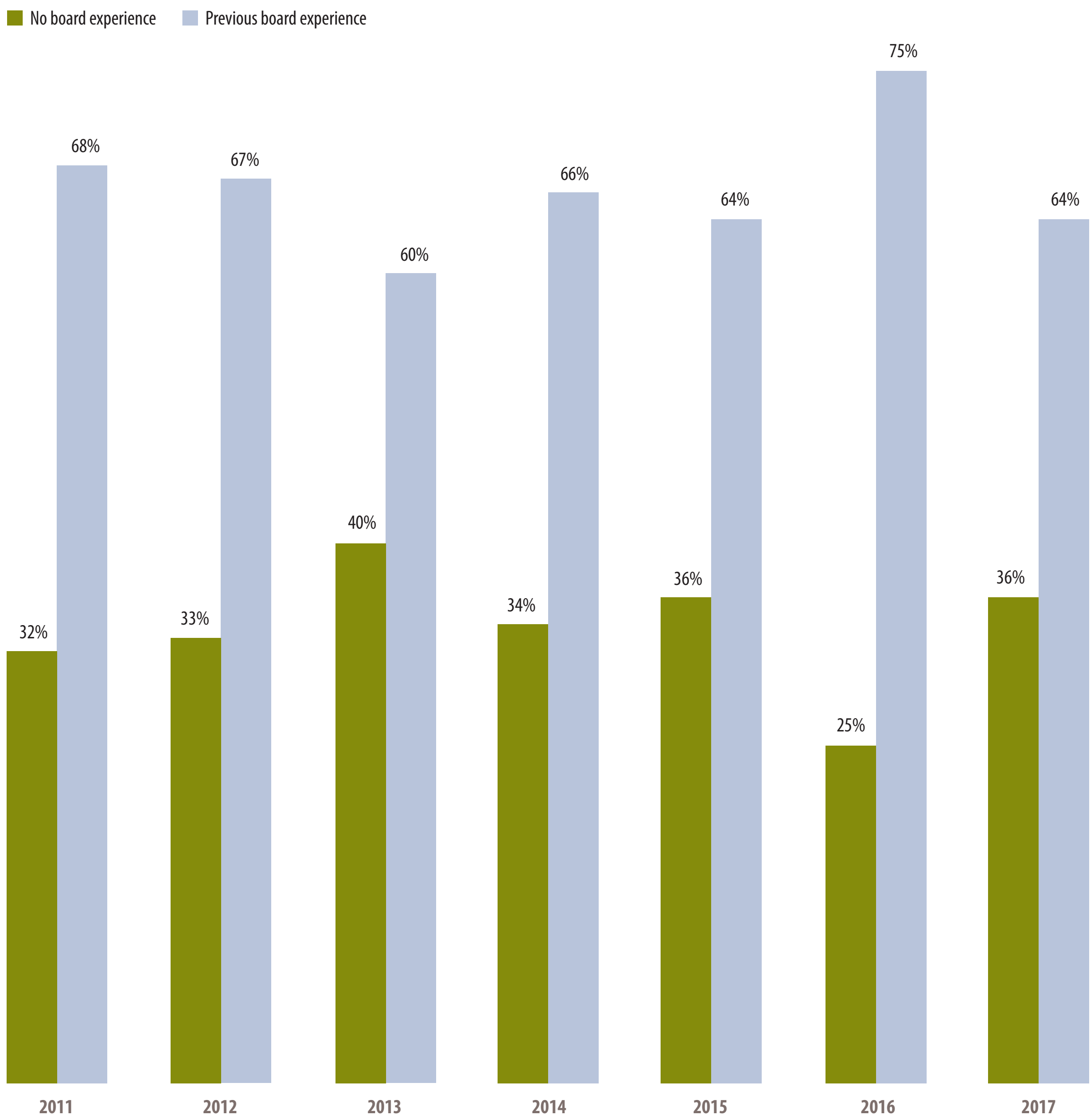
Sixty percent of first-timers were men. Of those, almost 47% went to industrial boards, almost 17% to consumer boards, and almost 16% to financial services boards. The three most widely distributed career experiences among them were business services, almost 23%; financial services, almost 22%; and industrial, almost 21%.

Forty percent of first-timers were women. Of those, more than 37% went to industrial boards, more than 25% to consumer boards, and almost 20% to financial services boards. The most widely distributed career experiences among them were financial services, almost 22%; business services, 20%; consumer, 20%; and industrial, 20%.

Seventy percent of first-timers were Caucasian. Of those, more than 46% went to industrial boards, 21% to consumer boards, and more than 14% to financial services boards. The three most widely distributed career experiences among them were industrial, 22%; business services, 21%; and financial services, 21%.

Fifteen percent of first-timers were African-American. Of those, almost 37% went to industrial boards, more than 26% to consumer boards, and more than 26% to financial services boards. Their three most widely distributed career experiences were business services, financial services, and industrial—all at almost 22%.

Figure 8: **New director appointments, by level of experience, 2011–17**



"For a first-time director, it's important to understand the culture of the company and the culture of the board before embarking on the role, as this enables a stronger start."

—**Sandra Beach Lin,** director at American Electric Power, Interface Biologics, PolyOne Corporation, and WESCO International

Seven percent of first-timers were Hispanic. Of those, more than 44% went to consumer boards and more than 22% to financial services boards. Their three most widely distributed career experiences were business services and financial services, both at about 33%, followed by consumer, at 20%.

Seven percent of first-timers were Asian. Of those, about 22% went to business services boards, 22% to financial services boards, and 22% to technology boards. Their three most widely distributed career experiences were technology and consumer, both at 23%.

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We pride ourselves on being our clients' most trusted advisor and offer an integrated suite of services to help manage these challenges and their leadership assets. This ranges from the acquisition of talent through executive search to providing counsel in areas that include succession planning, executive and board assessment, and board effectiveness reviews.

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Leaders of Heidrick & Struggles' CEO & Board Practice

Global

Bonnie Gwin
New York
bgwin@heidrick.com

Jeff Sanders
New York
jsanders@heidrick.com

Europe and Africa

Sylvain Dhenin
Brussels
sdhenin@heidrick.com

Sandrine Roseberg
London
sroseberg@heidrick.com

Asia Pacific

Fergus Kiel
Sydney
fkiel@heidrick.com

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WE HELP OUR CLIENTS CHANGE THE WORLD, ONE LEADERSHIP TEAM AT A TIME®

Getting a Seat at the Table

How executives can position themselves to get on boards

Today many successful executives view serving on a corporate board of a private or public company as a desired step in their career progression. Not only does corporate board service provide executives an opportunity to contribute their professional skills to another company, the experience exposes executives to different leadership styles, corporate cultures, strategies and risks, and expands their perspectives by providing a boardroom lens into business issues. Connections gained through board service extend professional and personal networks, offering introductions to senior executives from other industries, some of whom may serve as mentors and sounding boards.

At the same time, boards are reshaping. A variety of forces — including the unprecedented pace of change and business disruption, the growing number and complexity of risks facing businesses today and a changing investor climate — are driving boards to seek director candidates with new types of talent and different perspectives. Gone are the days when CEO or prior board experience is a requirement to join a corporate board. Today, boards are increasingly appointing first-time directors and executives with division, subsidiary or other leadership experience. And as boardroom diversity has become an imperative, boards are appointing more women and minorities as directors.

On the surface, it might appear that there would be great demand for experienced executives and ample opportunities for board service. However, the reality is boardroom turnover is traditionally low, and there are few openings in any given year.

Another complication for executives seeking director seats is the fact that boards increasingly are looking for directors meeting very specific criteria. So while the available talent for the boardroom may be plentiful, the pool shrinks as boards narrow their search criteria to seek candidates with the specific skills and backgrounds best matched to the company's forward-looking strategies and risks.

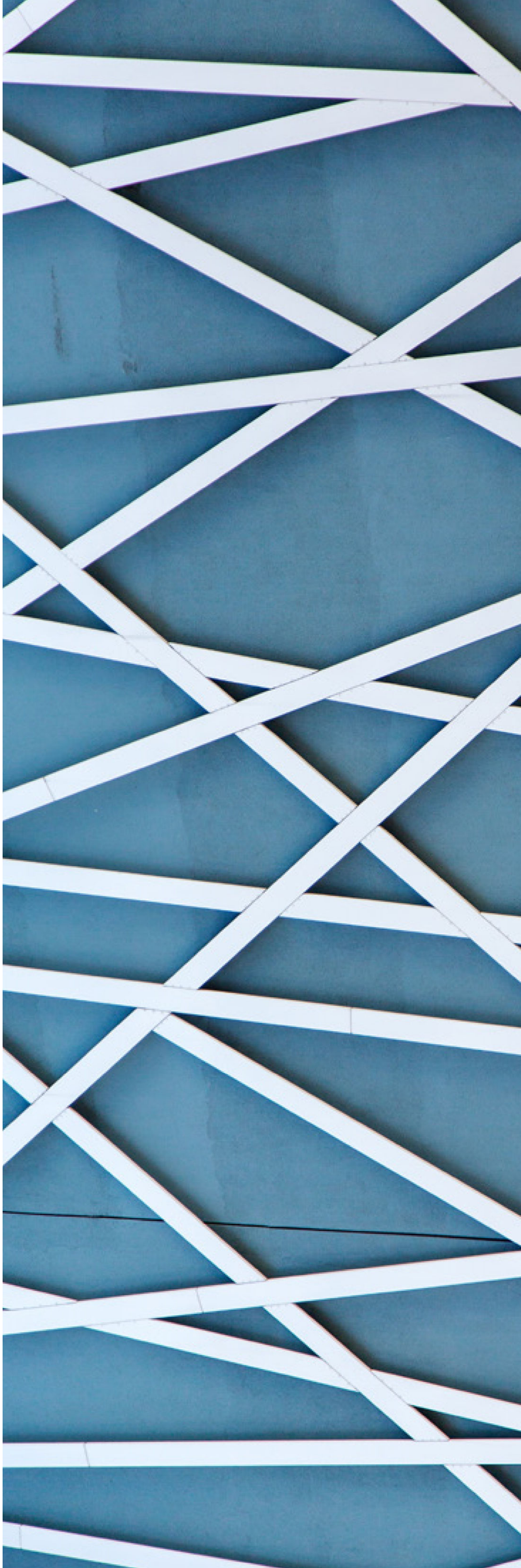
If you are an executive interested in board service, there are several things to consider.

UNDERSTANDING THE DIRECTOR SELECTION PROCESS

The initial step for executives seeking their first corporate board seat is to understand the succession process. Boardroom succession planning, which is generally led by the board's nominating/governance committee, is done quietly, behind closed doors. Boards don't announce when they are looking for directors, don't publicly seek nominations and don't disclose candidates under consideration. As a result, you could be a candidate without being aware you are under discussion.

Today, the best boards have a thoughtful and strategic process for boardroom succession planning. They are looking ahead, determining boardroom needs by evaluating the company's strategies and risks over the next several years, assessing the skills and qualifications of sitting directors and performing a gap analysis to identify talent shortfalls. As part of this analysis, boards are proactively considering upcoming director retirements and also assessing whether the skills of any current directors are outdated or less valuable. Done well, a gap analysis helps a board define its specifications for director candidates and narrow the universe of potential candidates.

Some boards enlist the services of an executive search firm to assist with succession planning. Others manage the process on their own and have directors tap their own networks to identify candidates. The timeline for identifying and appointing a new director can last several months, so patience is important for executives interested in an appointment to a corporate board.



Skill sets

Having the right directors around the board table is a strategic imperative. Corporate boardrooms are changing, reflecting the rapidly changing business environment and the need for directors with new types of skills. New talent is in demand, partly because active CEOs and experienced directors are serving on fewer boards.

Boards continue to have a preference for senior-level operating executives and rarely set out looking for heads of staff functions, lawyers or consultants. Diversity is also an important objective for many boards, not as an end in itself, but because different perspectives are invaluable to the decision-making process. Female or minority executives with operational experience are in high demand.

> … boards are proactively considering upcoming director retirements and also assessing whether the skills of any current directors are outdated or less valuable.

Identifying director candidates

After boards determine their needs, they then discreetly cast a wide net using a search firm or their own networks to identify people with those skills. They will begin an interview process that includes the chair of the nominating/governance committee, the CEO and the board chair, if separate. They will generally interview only two or three people for each opening. On some boards, the entire nominating/governance committee interviews candidates and, in some cases, the entire board gets involved in meeting the final candidate.

DETERMINING INTEREST LEVEL AND FIT

If you are interested in being considered for a board seat, make sure you have a firm grasp of both what you anticipate getting out of board service and what the work entails. Expectations of directors are high, and today board work is far more demanding than it was in the past. Test your readiness for board service by asking yourself the following questions:

Why are you interested in sitting on a corporate board? Some executives see board service as a valuable complement to their executive work. Others consider board service an excellent transition into a post-retirement career, providing an outlet to continue using their business experience. Regardless, if you are interested in serving on a board, being clear about your interests, motivations and value proposition will help you refine your search for best-fit boards and will also better prepare you for interviews with nominating/governance committees: They will be keen to hear your reasons for wanting to join their board, particularly the specific business challenges or governance issues that interest you and where you can provide valuable perspective.

How do you envision your role on the board? The role of a director is very different from that of an operating executive. Much of your time will be spent overseeing and assessing strategy, risk, capital allocation, financial reporting and management performance. You should be comfortable with this high-level, "noses in, fingers out" involvement and not aspire to run the company. If you aren't comfortable with an oversight role, then board service is not a strong fit for you.

What types of boards interest you? Approach this question from both sides, considering not only what types of boards you find attractive, but also why those boards would be interested in you. For example, think about industries relevant to your own career, but not competitive. Narrowing the scope of your search to companies for which your experiences would be useful will increase your chances of being considered.

Do you have capacity to fully commit to serving on a board? Board service extends well beyond board meetings. As a corporate director you will be expected to, among other things, serve on at least one committee, spend the necessary time preparing for board and committee meetings, stay abreast of industry and governance trends and hot issues, and be available when unexpected issues arise. You should factor in travel time for board meetings and assess whether you can easily travel to board meeting locations. Do you have an extra 250 hours — an estimate of the current annual time commitment for board service — to dedicate to serving as an outside director? Be realistic with yourself: If developing your career within your own company takes precedence over other elements of your professional life, it might not be the right time to pursue a board seat.

Does my current employer support my service on an outside corporate board? Before pursuing a board seat, you should confirm that your current employer is supportive. Some companies see board service as a way to further enhance the skills of their executives. Others expect executives to commit all of their time to the company and, as a result, discourage or prohibit service on outside boards. Nominating/governance committees will want to know that you have clearance to proceed.

Does this fit into my plans for the longer term? Recognize that board service is a long-term commitment. You should think of board service as a commitment of at least 10 years.

INCREASING YOUR CHANCES

What can you do to increase your chances of being considered for a board? The following guidelines will give you a head start:

Do your homework. Serving as a director is a time-consuming activity, so you want to be sure the investment is worthwhile. Think carefully about the industry sectors or business issues that are of greatest interest to you, and eliminate ones where there could be potential conflicts of interest. Do you prefer private or public companies? Go through the Fortune 1000, Russell 2000 and/or other lists and identify the companies that are the best fit for you. Organize the list into categories, prioritize it and, for your top picks, identify the board members of each. You may be surprised to find that you already know some directors or have contacts who do. Consider and acknowledge any restrictions that would prohibit service with certain boards, such as geography or competitive situations.

Be realistic. Although you might find the Apple board interesting, you need to be realistic about what is an appropriate board for you, based on the experience boards are looking for and what you have to offer. People can't help you if you aren't practical. Once you set appropriate expectations, you can hone in on places where you can get useful experience and put your knowledge to work.

Activate your network. Surveys find that a significant majority of directors were introduced to their boards by the CEO, another member of the executive management team or another director. As a result, activating your network is key. Since you can't apply for the job of director, you need people in the boardroom who will speak on your behalf.

Be sure to express your interest in serving on a board to contacts who already serve. These individuals are frequently approached about board opportunities, and they will often refer names of interested candidates to the search firm or nominating committee that contacts them.

Reach out to others who may be influential in director selection. And connect with others you know in the board ecosystem, including lawyers advising corporations, investment bankers involved in deals, accountants and private equity firms.

A word of caution: Expressing interest in a board seat is different than asking for a nomination. The former can often open doors, while the latter will almost certainly close them.

Raise your profile. Expand beyond your network by enhancing your profile through professional organizations, industry events and speaking opportunities.

Get some board experience. Serving on the board of a smaller company may be a logical first step toward joining the board of a major public company. Boards of smaller or private companies are more willing to recruit knowledgeable executives who are new to board service, and the experience gained through these assignments can improve your odds of being asked to serve on the board of a more prestigious company down the line. It also may be both pragmatic and fulfilling to pursue a directorship with a nonprofit, such as an educational, healthcare or social services organization, as you build your board resume.

While such assignments do not provide public governance experience, serving on a nonprofit board can provide access to a network that might ultimately lead to the right corporate board opportunity. If you are an excellent director in these settings, adding value and working collaboratively with others, you are more likely to be top-of-mind when one of your co-directors hears of an opening on a public board.

Educate yourself. Director education events for existing directors offer the opportunity to become more familiar with the governance issues shaping the boardroom today and to meet well-connected individuals. However, it's important to note that board training classes are not seen as qualifying you for board service.

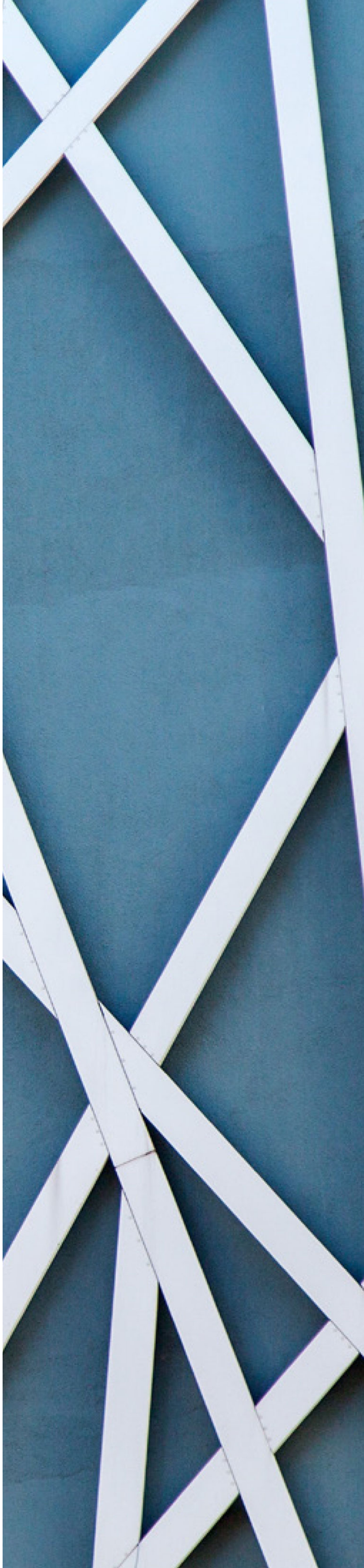
CRAFTING AN EFFECTIVE BOARD RESUME

A well-written resume highlighting accomplishments, experiences and specialized skills is essential for all professionals. However, while a well-crafted resume can generally be versatile and used in multiple professional contexts, it may be beneficial to tailor an existing resume for the boardroom. By applying the lens of a director, board-interested executives can focus their resumes on their skills and experiences of greatest value in the boardroom and, ultimately, increase their chances of being considered.

Components of a board resume

One size does not fit all when it comes to resumes, and a board-focused resume is no different. While executives should format their resumes as they see fit to best represent their skills and qualifications, they should consider including the following elements to a board-focused resume:

- Board value proposition
- Board experience (if applicable)
- Career history/summary
- Education and other credentials
- Personal information (optional)



Board value proposition

One way to highlight board-ready skills is include a headlining section that briefly spells out your board value proposition — those experiences and unique skills that boards will find relevant, such as involvement in governance activities, leadership experience (including the size and type of businesses you have run), and any global track record you might have. This section, which can be presented in bullet point or written format, should spotlight what you would bring to the table as a director.

Executives without boardroom experience should use this section to highlight specialized skills of value in the boardroom and any relevant experience working with boards. And this is the space for disclosing if you are interested in certain types of boards (size, industry, private, public) or corporate situations (bankruptcy, IPO, etc.).

Focus on operational successes, such as how you turned a company around, grew a business or overcame any notable challenges during the course of your career. Spotlight any credentials that can add value to a particular company. For example, every board has an audit committee, so if you have financial expertise, highlight this. And note any specialized expertise of value in the boardroom. For example, many companies are wrestling with the impact of digital and social media and are looking to bring that knowledge into the boardroom. Others are seeking candidates with on-the-ground experience in overseas markets.

Board experience

If applicable, include a section in your resume highlighting your board experience, starting with the most recent and disclosing dates served. Provide a brief description of each organization (including whether public, private, not-for profit), market capitalization, committees served (audit, HR, governance), board leadership roles (committee chair, independent chair, lead director). And don't forget to include any work you are doing or have done for your own board of directors.

THE BOTTOM LINE

Board service can be professionally and personally rewarding, and boards need executives who will add value based on the company's strategies and risks. As the pool of traditional board candidates shrinks, opportunities exist for talented individuals to position themselves for board service. Understanding your value proposition, activating your networks, and matching your skills and experience to those that boards are seeking may increase your chances of gaining a seat at the board table.

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At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 57 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

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Finding the Right Fit: Assessing First-Time Candidates for Non-Executive Directors

POINT *of* VIEW

SpencerStuart

In this era of rapid technological change and market disruption, boards have their work cut out to keep pace with what is happening in their own companies, let alone in the broader, converging business environment. To remain relevant — to be able to make a meaningful contribution to strategy and challenge management effectively — boards need to refresh themselves continually and seek out directors who can bring in much-needed knowledge and experience from the front line.

One of the board's most important tasks is to identify potential new directors and assess their suitability for the role. This task is made all the more difficult by the fact that an increasing number of high-quality candidates have not served on a main board before. Many nominating committees are nervous about appointing executives who lack boardroom experience, and with good reason — board appointments involve a long-term commitment and mistakes can be painful and costly, disrupting the equilibrium of the board and damaging the reputations of those concerned.

That said, a growing number of first-time directors are being appointed to boards. According to research published in the *Spencer Stuart Board Index*, 33 percent of S&P 500 appointments and 32 percent of FTSE 150 appointments in 2018 were new directors serving on their first corporate boards.

Many of these directors bring knowledge in fields such as cybersecurity, AI, machine learning and industry 4.0 technologies; others have firsthand experience in digital transformation, organizational design, customer insight or social communication. The demand for such cutting-edge expertise is likely to rise, which means more first-time directors finding their way into the boardroom in the coming years.

To reduce the risks, and to help them make the very best appointment decisions, nominating committees need a robust framework for assessing not just the suitability of a candidate's expertise, or whether they will mesh with other directors, but most importantly how well they will adapt to the role of non-executive director itself.

Board experience not essential

Fortunately, lack of experience is not the barrier to service on a board that it once was. By isolating the intrinsic qualities needed to be effective as a non-executive director and measuring the extent to which candidates possess these qualities, Spencer Stuart is able to assure nominating committees that the people they put forward (some of whom may come from outside the corporate sector) will have what it takes to contribute effectively in the boardroom.

A curriculum vitae (CV) and references are the typical starting place for sizing up candidates for their potential fit against the non-executive director role specification, since they will paint a picture of the candidate's accomplishments and likely provide insight into skills the board might find desirable. However, that's all they are — a starting point.

For example, the nominating committee must consider references in context. Although referees may speak highly of an executive's accomplishments, this praise will almost certainly relate to a different type of role from that of serving on a board. Nominating committees must search for indications of strategic vision as well as the ability to think laterally, learn quickly and exert influence by working through others.

For any board role it is essential to delve into a candidate's character and temperament, as well as his or her background. We recommend that boards assess prospective first-time directors against five key attributes: interpersonal skills; intellectual approach; integrity; independent mindedness; and inclination to engage.

Candidates strong in these five areas are most likely to be capable of contributing as all-around directors, in addition to the specific knowledge, skill or set of experiences that makes them interesting to boards.

1

Interpersonal skills

First-time board candidates must understand that they are signing on to a team. They must be willing and able to adapt to differences in the way fellow board members think and operate, adjusting their communication style accordingly.

An active executive seeking to join a board will need a change in persona to some extent. Many first-time directors struggle to understand the distinction between a governance role and a management role, and their interventions can easily become disruptive instead of constructive. It can take time and energy to help them understand the expectations (and limitations) involved in being an independent director, so it is essential to establish whether an individual is capable of making this critical mental adjustment prior to appointment. Inside a business, the onus is on the leader to make executive decisions, whereas in the boardroom decisions are more likely to be formed through compromise and consensus.

While boards want active executives who can bring up-to-date knowledge and specialist expertise, they must be careful to avoid people whose primary instinct is to interfere in operational matters or other areas of management responsibility. Candidates who become interested in non-executive directorships have often achieved success in their careers by taking charge of their own development and by leading teams — that is, being out front and driving results. Such behavior is counter-productive in a board member.

Our experience is that the most effective non-executive directors are "leaders of leaders," that is to say people who think strategically and communicate persuasively while developing the leadership of those around them. They know how to exercise soft power and understand that their job is to listen carefully and speak sparingly, providing challenge, advice and support to management, not trying to run the business. There is, of course, plenty of middle ground where directors can contribute their special expertise to collaborate with management — particularly in the realm of strategy.

2 Intellectual approach

Most board roles should be filled by people with intellectual confidence and strategic capabilities. Board directors are setting the overall direction for the business in a fast-changing world and therefore must have the cognitive power and flexibility to make good judgments in ambiguous, complex, changing environments. It is therefore important to assess first-time director candidates for their ability to handle complexity and ambiguity; the ability to simplify issues to their essence in order to make sound, logical decisions; and the ability to transfer their skills to different environments.

To identify candidates with these abilities, including the capacity to use influence and build trust to persuade other leaders, nominating committees might look at individuals in complex business structures where multiple visions compete for prominence. Divisional leaders, for example, rarely act with total autonomy and must work with their peers as part of the larger organization to advance their goals.

Another source of candidates could be people who have served on the board of a joint venture in which their parent company holds a minority stake; in those situations, candidates have had to influence a business that they don't control, which can be a good proxy for being a non-executive director. In some instances, nominating committees may consider candidates with high intellectual standing outside the corporate world — from academia, government, supranational institutions or non-governmental organizations (NGOs), for example.

3 Integrity

This can be a difficult area for nominating committees to assess. Board director candidates have usually achieved a great deal in their careers, but their integrity in dealing with people and the degree to which their decisions have been guided by principles may be less obvious. When assessing candidates for board directorships, it helps to consider whether they have looked beyond their own narrow interests to contribute to the well-being of others and the organization as a whole. Integrity and humility are valuable assets in the boardroom. Independent directors may not be required to speak a great deal, but they are expected to be thoughtful and leave their egos at the door. The most effective directors find ways to challenge orthodox thinking, yet are willing to listen to a range of arguments, admit errors and be honest with themselves.

4

Independent mindedness

Independent mindedness is most apparent among people who are at ease with themselves. Unlike those who feel they have to justify their presence in a room, independently minded candidates do not feel compelled to demonstrate their knowledge or to receive recognition. They view service on a board as an opportunity to learn. They enjoy the challenge and give-and-take of discussion, and have the intellectual confidence to think for themselves while engaging with fellow directors in a collaborative manner.

The most effective directors find ways to challenge orthodox thinking, yet are willing to listen to a range of arguments, admit errors and be honest with themselves.

5

Inclination to engage

Most active executives will be joining the board of a company in a different industry from the one where they spend most of their time; there may be only a tangential relationship between the two industries. For this reason, candidates should be able to demonstrate a genuine interest and enthusiasm for the company they are about to join and the sector in which it operates. This means not only that they will have read relevant financial documents, but also that they will have taken the time to learn about the history of the company, its capital structure and market positioning, as well as the issues, competitors, and forces affecting the organization. They will be able to demonstrate their knowledge of the company and its environment by the types of questions they ask during interviews with company management and current board members. They will be curious about the cadence of board discussions and relationships among members.

QUESTIONS FOR BOARDS TO CONSIDER

Interpersonal skills — Has the person demonstrated an ability to build relationships with all kinds of people? To influence and to gain trust and support from others? Can the candidate use diplomacy and tact? Listen and adjust appropriately to others' input?

Intellectual approach — Can the candidate handle complexity, or simplify issues to the essence to make sound, logical decisions? What is their comfort level with ambiguity? Does he or she have the ability to look ahead? To transfer knowledge and experience to different environments?

Integrity — Will the candidate adhere to an appropriate and effective set of core values and live by them? Is she or he honest and truthful? Is the person authentic, self-aware and confident enough to "be oneself"?

Independent mindedness — Can the candidate set out and defend a position, even when this means going it alone? What about the ability to maintain positive relationships amid conflicts about ideas?

Inclination to engage — Is the candidate motivated to invest time and effort in learning about the organization and staying up to date with it? Is she or he diligent enough to follow through with commitments?

Financial competence

When assessing the suitability of a first-time director, boards should probe their level of financial literacy. Since board members have to approve financial statements, they must be comfortable reading a balance sheet and digesting income and cash flow statements. Beyond that, consider the broad array of financial matters that may come before a board — mergers and acquisitions, capital allocation, dividend payouts or share repurchases, and so on. Because so much boardroom discussion revolves around decisions that have financial implications, board members must have more than a passing knowledge of finance.

Our experience is that nominating committees tend not to assess the financial acuity of directors candidates in any great detail, either because they make positive assumptions or because they are embarrassed to probe. However, first-time directors who lack financial competence are going to have to learn fast or they will only be able to offer a limited contribution.

One possible way to assess a first-time director's financial smarts might be to engage the chair of the board's audit committee to evaluate the types of questions posed by a candidate. If certain shortcomings surface during these discussions, but the candidate is strong enough otherwise, the assessment can highlight areas where the company might provide training and support through mentors or other means as part of a successful onboarding.

Putting it all together

Evaluating candidates for board membership is both an art and a science. Sound judgment is required to collect the right evidence and weigh the benefits against the risks. Context must be factored, too: an individual might be an excellent prospect as a non-executive director, but just not on that particular board.

While there is no definitive way to predict whether a first-time board member will be a success, we believe that a systematic approach to assessing the intrinsic qualities of a candidate significantly reduces the level of uncertainty surrounding such an appointment. Moreover, it helps identify ways in which the board chair can help the new director integrate effectively and get up to speed with the critical issues facing the board.

Authors

Julie Daum (New York), William Dawkins (London) and Angeles Garcia Poveda (Paris)

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Harvard Law School Forum on Corporate Governance

2021 Global and Regional Trends in Corporate Governance

Posted by Rusty O'Kelley, Anthony Goodman, and Laura Sanderson, Russell Reynolds Associates, on Wednesday, March 3, 2021

Tags: **Board composition**, **Boards of Directors**, **Climate change**, **Diversity**, **Environmental disclosure**, **ESG**, **Human capital**, **International governance**, **Sustainability**
More from: **Alvin Chiang**, **Andrew Droste**, **Anthony Goodman**, **Laura Sanderson**, **Rusty O'Kelley**, **Sarah Oliva**, **Russell Reynolds**

Editor's Note: **Rusty O'Kelley III** is leader of the firm's Board & CEO Advisory Partners; **Anthony Goodman** is a member of the Board Consulting and Effectiveness Practice; and **Laura Sanderson** is a consultant at Russell Reynolds Associates. This post is based on a Russell Reynolds memorandum by Mr. O'Kelley, Mr. Goodman, Ms. Sanderson, Andrew Droste, Sarah Eades Oliva, and Alvin Chiang.

Introduction

This year, as in the previous five years, Russell Reynolds Associates interviewed over 40 global institutional and activist investors, pension fund managers, proxy advisors and other corporate governance professionals to identify the corporate governance trends that will impact boards and directors in 2021.

Global Trends Predicted for 2020

1. Greater focus on the E&S of ESG
2. Increasing importance of corporate purpose
3. Better board oversight of corporate culture and HCM
4. More expansive view of board diversity that includes ethnicity and race
5. Companies facing wider forms of activism

At the time of publishing last year's paper in January 2020, we could not have known just how painfully relevant many of the trends we predicted would turn out to be:

The COVID-19 pandemic and social justice movements have had far-reaching impacts on business and society around the world. In many ways, we are at a turning point. Corporate governance trends vary somewhat across regions, but corporations globally are experiencing a reckoning around their role in society. The expectations of the independent directors who oversee corporations have never been higher.

Global Trends Predicted for 2021

1. Climate Change Risk
2. Diversity, Equity & Inclusion (DE&I)
3. Convergence of Sustainability Reporting Standards
4. Human Capital Management

5. Return of Activism and Increased Capital Markets Activity
6. Virtual Board & Shareholder Meetings: Here to Stay

1. Climate Change Risk. The pandemic forced the "S" of ESG (environmental, social and governance factors) higher up the corporate agenda as companies sought to reassure stakeholders that they took the safety of their workers and communities seriously. In 2021, climate change will be back in focus.

Corporate responsibility for managing climate change as a long-term, material financial risk has gained traction in markets that have previously resisted it. That the Biden administration in the US rejoined the Paris Climate Agreement on its first day in office reinforced that. Commitments to carbon net zero by 2050 are widespread and creating pressure on peers (both companies and governments). In his 2021 letter to CEOs, BlackRock's Larry Fink set expectations for companies to disclose how their business plans incorporate net zero by 2050 and how these plans are reviewed by the board. [1] Boards should also pay close attention to the decisions and outcomes of the 26th United Nations Climate Change Conference (COP26) in the UK in November. We also are keeping an eye on investors (and companies like Unilever) starting to support a new investor "Say on Sustainability" vote.

2. Diversity, Equity & Inclusion ("DE&I"). Our number one trend for the US this year is also a hot topic in other regions (including the UK and Canada) though not yet in the EU. The murder of George Floyd in the US and the subsequent protests resulted in a collective awakening in many countries around the world, causing social and racial justice issues to gain unprecedented attention. As a search firm active in placing diverse candidates, we are seeing increased demand for racial and ethnic diversity at the board, C-suite and employee levels, as well as increased investor demands for disclosure of key data on diversity, equity and inclusion. Gender diversity remains a priority in all the regions covered in this paper.

Convergence of Sustainability Reporting Standards. The global effort to identify and report material ESG risks has resulted in a proliferation of reporting standards, with many investors preferring standards such as SASB and GRI. In 2020, the authors of the major sustainability disclosure standards and frameworks announced a statement of intent to work together to create a comprehensive corporate reporting system. Investors will soon be able to gather a complete and comparable view of a company's material risks (including ESG). As with many of the trends this year, we expect private equity firms and other private companies to also increase their focus on ESG. All boards should expect to start being held more accountable for sustainability disclosure by their stakeholders.

3. Human Capital Management. The largest institutional investors continue to increase their expectations around board oversight of human capital management (HCM) and corporate culture. As part of the economic fallout from the pandemic and the social justice movements in many regions, demand for disclosure of more HCM data (e.g., gender pay gap, safety incidents, employee turnover) has skyrocketed. This year, many investors and proxy advisory firms plan to support more shareholder proposals on this topic and hold directors more accountable for insufficient disclosures.

4. Return of Activism & Increased Capital Markets Activity. Shareholder activism slowed significantly in the first three quarters of 2020 (down 24 percent globally through Q3) [2] but is expected to return this year with more activity already seen in Q4 2020 and January 2021. Activists will be looking for new scenarios to unlock value and will ask boards, "What is your obligation to further drive value creation even when the company is performing well?" There has been a sharp increase in special purpose acquisition companies (SPAC) and subsequent mergers, and private equity is sitting on an estimated $1.5 trillion+ of "dry powder" for future market activity. Boards will have to stay focused on capital allocation and key business metrics given the significant capital available and quest for deals.

5. Virtual Board & Shareholder Meetings: Here to Stay. In the spring of 2020, as companies rushed to convert their annual shareholder meetings into virtual events, boards also shifted from in-person meetings to virtual ones. As they adapted to life in the virtual environment, many began exploring how to permanently leverage the associated efficiencies post-pandemic. Russell Reynolds works with hundreds of public company boards around the world each year and, based on our engagement with them, we see that many boards will develop a hybrid calendar where at least one meeting per year remains virtual and many ad hoc and committee meetings stay online. Many companies—where there is an option—will use some form of combined in-person and virtual shareholder meetings.

U.S. & Canada

Diversity, Equity and Inclusion (DE&I): Investors and other stakeholders expect material improvement in and disclosure of a company's diversity data all the way from the boardroom (where directors will be asked to self-disclose their ethnic and racial identity) to the shop floor (in the US using EEO-1 data). Improvement in the ethnic/racial diversity of the board is a top 2021 priority for the three largest institutional investors (BlackRock, Vanguard, State Street), and they are prepared to use their voting power against nominating committee chairs and others if progress is not made.

Other stakeholders are stepping up their expectations as well. California law now requires that by the end of 2021 public companies headquartered in the state have at least one director who is from an underrepresented community. NASDAQ has proposed a similar listing requirement, which is subject to approval by the Securities and Exchange Commission (SEC). **[3]**

In Canada, 2021 is the first year the Canada Business Corporations Act requires issuers to disclose their diversity policies, targets and representation with respect to members of "designated groups" at the board and executive levels. The Capital Markets Modernization Taskforce recently recommended that Canadian boards reach a 30 percent target for BIPOC, persons with disabilities and LGBTQ+ within seven years. ISS now expects Canadian companies to commit to a 30 percent target for gender diversity as well.

ESG Oversight and Disclosure: Institutional investors have committed to increasing their support for shareholder proposals on "E" and "S" issues and holding directors accountable for oversight of related initiatives. With the shift in proxy fights focusing on ESG issues, proxy advisors are following suit as well. ISS's 2021 voting policy update for the first time includes "whether a board has demonstrated poor risk oversight of environmental and social issues, including climate change," as a failure of oversight and can now lead to an "against" or "withhold" vote on directors. **[4]** In light of the Biden administration's ambitious climate change and carbon neutrality goals and Larry Fink's demand for net-zero plans, boards will have to ask themselves whether they have the proper oversight in place. Key priorities include having (a) timely ESG data sufficient relative to peers; (b) proper consideration of stakeholder interests beyond shareholders when crafting ESG initiatives; and (c) ESG integrated into business strategy.

Corporate Culture and HCM: Investors continue to increase expectations around the governance of human capital and culture, stating they will actively support more shareholder proposals and hold directors accountable. The COVID-19 pandemic has rapidly accelerated interest in how companies are approaching HCM and corporate culture and managing related risks. In November 2020, the SEC adopted new, principles-based HCM disclosure rules. These rules underscore the notion that employees are key to the value of an organization. The new rules require a description of the company's human capital resources, including any human capital measures or objectives that management focuses on in managing the business. This includes actions that address attraction, retention and development of employees.

Executive Compensation: Investors will enhance scrutiny of executive pay incentives in light of attendant circumstances caused by the pandemic (e.g., company acceptance of government aid, layoffs, worker safety and treatment). Boards will have to consider—even more so than in years past—the reputational risks that accompany executive compensation decisions, particularly when meeting financial targets via extensive layoffs or other measures that hit frontline employees. Inclusion of E&S metrics in compensation decisions will serve as a stand-in for whether a board has truly integrated E&S into its strategy.

In Canada, we expect investors to increase their scrutiny of say-on-pay from last year, given the COVID-19 environment. Environmental and social measures were included in performance criteria in 56 percent of incentive plans in Canada last year, a four percentage point increase over the prior year. **[5]** We expect this to trend to continue.

Technology and Cybersecurity: With an estimated 60 percent of global GDP enabled by or supported by technology **[6]** and with frequent cybersecurity breaches across the S&P 500 (including the recent SolarWinds hack), investors will place increased scrutiny on board oversight and disclosure around this risk. In a PwC survey of business and technology executives, 96 percent of respondents said that they will shift their cybersecurity strategy due to COVID-19, and 50 percent said that they will consider cybersecurity in every business decision (up from 25 percent last year). **[7]**

Political Contributions: Following the January 6, 2021, insurrection at the US Capitol, many companies have decided to reduce, pause or eliminate political campaign contributions. From Amazon to American Express to Marriott International, the list of companies rethinking their approach this year continues to grow. Many companies that have not yet made a change are under pressure from employees, customers and other stakeholder groups to do so. Time will tell as to whether these changes in corporate policy will be temporary or more permanent.

Return of Activism and Increased Capital Markets Activity: As noted in the global trends, we expect shareholder activism to continue its return in 2021 as the world begins to look toward a post-pandemic future. SPACs have recently skyrocketed in popularity in the US, with 230 new SPACs formed in the US last year, some 50 percent more than the total of the past four years combined. **[8]** Although it will be important to pay attention to any new regulation initiated by a new Biden-appointed SEC chair, we expect the SPAC popularity from last year to continue.

Virtual Shareholder Meetings (VSMs): While investors were forgiving about the lack of functionality of many VSMs that were hastily put together in the face of the pandemic in 2020, they will be much less patient in 2021. Best practices have been codified in the *Report of the 2020 Multi-Stakeholder Working Group on Practices for Virtual Shareholder Meetings,* and boards should ensure that this year's VSMs take those into account. **[9]** Best practices cover issues such as submission of questions, treatment of shareholder proposal proponents and the use of audio versus video.

Brazil

Impacts of the Past Year on Short-Term Priorities: 2020 was a particularly challenging year for Brazil given the COVID-19 epidemic, the wildfires in the Amazon and government challenges, all of which combined to impact corporate governance.

Foreign and global institutional investors are reducing their investments into Brazil in part due to a negative outlook on environmental issues. With domestic investors replacing them, we anticipate a short-term prioritization of business growth and productivity over the global trend toward ESG.

Emergence of the ESG Agenda: In Brazil, ESG is in its infancy. ESG-related topics are demanding more time from boards and are not yet fully integrated into how a company does business. The global focus on ESG is now impacting business in Brazil, with international investors being very vocal. In the wake of Brazil's three largest banks signing an open letter on ESG, we expect increased pressure to address environmental concerns. Social and cultural issues are also garnering more attention as the pandemic highlights the vast disparities in Brazil.

The proposed reform of the Brazilian Securities and Exchange Commission (CVM) Instruction 480 embodies the ESG trend. The main objective is to reduce the cost of regulatory compliance by securities issuers and to improve the provision of information related to ESG. The changes include a greater emphasis on the disclosure of social, environmental and climate risk factors and a requirement for issuers to position themselves on relevant sustainability goals in the context of the business. Boards will need to think about broader social commitments, cultural matters impacting the health and safety of employees and how it all aligns with their risk management framework.

Gender Diversity: With women comprising only 11 percent of corporate directors in Brazil, the push for gender diversity continues to grow. Next year, investors will put more pressure on boards to address any lack of gender diversity, and there may be an uptick in gender diversity mandates by proxy season. By February 2022, ISS will recommend negative votes if a board does not have a female director.

While the mobilization to improve diversity is focused on gender, there is a recognition slowly building around the need for increased racial/ ethnic representation both on boards and in management.

Public Company Governance: Post-COVID, Brazilian companies will need to raise capital, which has led to an increase in companies planning to go public. As more companies consider this path, boards will need to prepare to rapidly evolve their corporate governance. Expect investors to push beyond ISS minimums and talk to companies about majority-independent boards, as well as focus more scrutiny on audit committee independence and conflicts of interest. In independent director elections, ISS has pushed for Novo Mercado and Nivel 2 issuers to have at least 50 percent independent directors.

Additionally, boards also should be aware of their heightened duties and responsibilities in governance, as directors could potentially be held liable for corporate actions. ISS will also potentially recommend voting against the board, committee or directors where material governance failures occur and where directors are over-boarded (sitting on more than five public company boards or more than two outside boards if a CEO). There will also be a shift toward hybrid in-person and virtual annual shareholder meetings. The chaotic VSMs of 2020 left investors dissatisfied with the quality of dialogue but did allow for greater attendance and observation.

Preferred Voting Rights: Several technology companies are arguing for preferred voting rights in order to retain control. While this trend is popular among founders and controllers, concerns around minority shareholder protections have yielded new sunset provisions on these enhanced rights. Asset managers are continuing to defend the use of sunset provisions. We expect investors to continue emphasizing minority shareholder protections as this tension continues.

European Union

Climate Change and Other Environmental Priorities: At the end of 2019, the EU presented the "Green Deal," and 2020 saw the proposal of a new climate law to reach net-zero carbon emissions by 2050. These goals are accompanied by an investment plan, an industrial strategy, a circular economy action plan and a 2030 climate target plan. For EU companies (arguably the most advanced in integrating sustainability into strategic plans and decision-making), this has accelerated setting their own environmental targets. Consequently, in the EU the "E" in ESG currently overshadows the "S" and the "G."

For some countries and investors (particularly in the Nordics), safeguarding biodiversity is emerging as a high priority in tandem with carbon reduction. While most boards are not appointing climate scientists or sustainability experts, they do have a need to appoint directors who know how to oversee the transition to a low-carbon economy. Shareholders are becoming more insistent that companies show the ways in which they are taking climate change risk into account, and they are increasingly prepared to vote against directors where there has been a collective failure to do this.

Common Standards in ESG/Sustainability Reporting: A sharp focus on sustainability brings with it an urgent need to harmonize the large number of alternative reporting methodologies. In Q1 2021, the EU Financial Reporting Advisory Group (EFRAG) is set to release a report on revising the Non-Financial Reporting Directive (NFRD), mandating the use of a common set of standards. These standards would facilitate assurance, enforcement and digitization using a taxonomy and structured data standard. Yet the EU Green Deal also has implications for financial as well as non-financial reporting. The International Financial Reporting Standards Foundation (IFRS) will need to incorporate guidance around climate risk materiality and the ways in which it should be reflected in financial statements. The request from investors is for "numbers, not words" to aid comparability across time and sectors and independent verification of ESG data. There is also increasing interest in seeing executives' remuneration tied to achieving ESG targets (broadly defined). Meanwhile, the European Commission has also launched a consultation aimed at identifying better ways to embed sustainability into the corporate governance framework, noting that "whilst the NFRD is based on incentives 'to report,' the sustainable corporate governance initiative aims to introduce duties 'to do.'"

Shareholder Rights and Proposed Solutions: The Shareholder Rights Directive II (SRD II) went live across most of the EEA member states on September 30, 2020. The aims of SRD II are to increase the level and quality of engagement of asset owners and asset managers with their investee companies, strengthen shareholder rights (including scrutiny of remuneration and related party transactions) and facilitate cross-border investment chain information (e.g., voting). However, the backdrop of the pandemic has led EU companies to move unevenly, and 2021 may see more progress toward implementation.

Board Chair Independence: We expect to see greater challenge over the independence of EU boards in 2021. In France, Legal & General Investment Management (LGIM) announced that it would vote against individuals holding a combined chairman and CEO role on the grounds that this arrangement causes a fundamental weakness in risk oversight. In Germany, this year will be characterized by significant board renewals under a revised Corporate Governance Code that lays out new standards for board independence, including criteria around board chair independence.

Brexit: Although a deal between the UK and EU is in place, 2021 will likely see continued disruption and uncertainty for any company trading goods and services between the UK and the EEA. Notably for boards, companies with EEA resident director requirements can no longer count UK resident directors toward that quota.

United Kingdom

Climate Change and Other Environmental Priorities: Recognizing the current absence of global standards on non-financial reporting, the Financial Reporting Council (FRC) has encouraged UK companies to report against both the TCFD and SASB metrics as an interim step.

Companies have until 2022 to comply on a voluntary basis and until 2025 to comply with the TCFD's climate risk disclosure recommendations on a mandatory basis. Companies will be expected to incorporate climate change as a key long-term risk in accounting statements and financial reporting. For investors, engagement on climate change is still the preferred approach, but if this does not bear fruit in 2021, then expect to see an escalation to voting in 2022. Current campaigns for investors to have a "say on climate" vote may gain traction more quickly. As the UK hosts COP26 in the fall and works to keep pace with the EU's Green Deal, we also expect particularly keen political interest in what UK companies do.

Diversity on Boards: In 2017 the Parker Review set a target for each FTSE 100 and FTSE 250 board to have at least one director of color by 2020 and by 2024, respectively. An update published in February 2020 showed progress has been slow, but the rate of appointment of directors of color has increased dramatically since the social justice protests in the UK and around the world.

Investors have also set their own voting policies in line with Parker. LGIM wrote to each FTSE 100 company without an ethnically diverse director outlining its intention to vote against the nominating committee chair (usually the board chair in the UK system) in 2022 if the Parker target is not met.

Better progress has been made on gender diversity. The Hampton-Alexander target for the FTSE 350 (33 percent women) was achieved in November 2019, one year early. Attention has now turned to the FTSE 100 achieving 33 percent female board and senior management representation. BlackRock also has made clear that it expects companies to adopt the recommendations of both the Parker and the Hampton-Alexander reviews.

Social Justice, Equity and Inclusion: The "S" of ESG is currently the most important focus in the UK context. Companies, particularly those that received support via the government's furlough schemes, are facing heightened expectations around social responsibility. Investors are keen to see how companies treated their employees, suppliers and customers through the COVID-19 crisis. Boards will also be expected to demonstrate how they have considered employee interests in decision-making. Disclosing data around employee engagement, pay ratios, employee turnover and workforce composition over time will be the new standard. There is also strong appetite for ethnic diversity statistics, but in the absence of a UK equivalent to US EEO-1 data, companies will need to devise mechanisms for employees to self-report.

Remuneration Scrutiny: The key question that UK companies will need to answer in the 2021 reporting season is: Where there was a change in the outcome of the remuneration process as a result of COVID-19, what was the decision-making process behind it? If stock price has become dislocated from operational outcomes, how is this communicated and accounted for in compensation metrics? Remuneration committees will face continuing pressure to include ESG and HCM metrics in targets.

Shareholder Rights and Proposed Solutions: The 2018 UK Corporate Governance Code took effect only for companies with a fiscal year starting after January 2019, making this year's reporting season the first real test of adherence. To date, Glass Lewis has noted a relatively high level of non-compliance with several of the more controversial new provisions (e.g., the nine-year tenure limit for independent chairs) despite generally improved reporting and disclosure.

Asia Pacific

Australia

ESG Inclusion and Board Accountability: While the 2019 Australian wildfires may seem a distant memory to some, 2020 saw an increase (albeit small) in support for environmental shareholder proposals at several of the larger mining and energy companies. Support has generally been tepid because of the important role mining companies play in the Australian economy.

Leading Australian Securities Exchange (ASX) companies have moved a long way very quickly on environmental issues, particularly climate change. There is arguably business consensus on carbon neutrality by 2050. This is also the position of the state governments, but not the federal government. Effectively, business is putting measures into place to deliver these outcomes in spite of a lack of legislative clarity. Many banks are deciding not to fund coal developments and are under increased pressure to put out public statements on fossil fuels. Some insurers are stepping away from companies that do not have climate change–mitigation strategies. Boards will have to sort through these goals and mandates to develop clear policies around ESG.

Shareholders may also see an increase in socially focused proposals as a result of the pandemic and a range of social issues that have come to the fore in 2020.

Relationship with China: Australian supply chain exposure to China will be a top risk on board agendas in the coming year. About 16 value chains from minerals to tourism to education services have been impacted by various embargoes, ranging from directives to not buy Australian or to not travel to Australia to informal stoppages in ports. Boards will have to consider how to deal with these trade complexities and hostilities between the two nations.

Remuneration: Some of the S&P/ASX300 companies that were hardest hit by the pandemic have announced restructuring, including reductions in fixed and variable remuneration and director fees. Other companies have performed well and will likely continue to pay high bonuses. Investor scrutiny of the judgment boards use this year will be under especially high scrutiny, especially if the company accepted money from the JobKeeper support program.

Ethnic and Racial Diversity on Boards: Australian companies should expect increasing criticism around the lack of ethnic and racial diversity on their boards from some domestic and international investors. Few Australian boards have representation from diverse groups, including indigenous populations. Ninety-three percent of CEOs and 70 percent of board members are from Anglo-Celtic heritage. [10] Relatedly, many Australian firms have gone global but do not have non-executive directors with relevant experience in other geographies, in particular Asia and Latin America.

Japan

Climate Change: The largest institutional investors, as well as some activists around the world, will be placing an emphasis on climate change in 2021. Japanese companies are ahead of the curve here, as they have higher than average rates of TCFD disclosure. Along with its neighbors in China and South Korea, Japan has also set net-zero carbon emissions targets for the coming decades.

Cross-Shareholdings: Cross-holdings in Japan may eventually become a practice of the past. The practice— often criticized for protecting underperforming companies—has been under significant scrutiny for many years. The Tokyo Stock Exchange (TSE) has intentionally restructured to force directors at top companies involved in these networks to sell down. Proxy advisors are implementing new strict voting guidelines against them. Although it will take time to eliminate cross-holdings completely, TSE, ISS and Glass Lewis are stepping up efforts to force them out of existence.

Independence: Board independence levels continue to be an area of increasing importance in Japan. Independent directors witnessed a sizable increase in their overall proportion among all directors in Japan, growing from 27 percent in 2019 to 36 percent in 2020. [11] Due to scrutiny around related-party transactions, investors have been increasing their focus and interest on the value of appointing lead independent directors.

Gender Diversity: Japanese companies without a single female director or female officer shrank from 55 percent in 2019 to 50 percent in 2020. [12] In 2021, there will be a targeted approach in certain industries to continue this trend. Fifty-six percent of female board members are in one of just three sectors: industrials, consumer discretionary or consumer staples. Meanwhile, female representation in industries such as energy and utilities continues to lag behind.

Compensation: In the absence of say-on-pay proposals in Japan, investors have been reaching out to Japanese companies to encourage the adoption of compensation plans linked to performance (instead of fixed cash), as the Corporate Governance Code recommends.

ESG Shareholder Activism: Shareholder proposals in Japan will continue to rise, along with support for E&S-specific proposals. The revised Stewardship Code released in 2020 maintains the comply-or-explain approach but introduces an increased focus on ESG matters, including improving disclosure.

Singapore

Improving Transparency and Disclosure, Especially for Sustainability: Despite challenges posed by the pandemic, Singapore- listed companies saw improvements when it came to governance and transparency in 2020. The standard and quality of governance disclosures have continued to see a positive trend, as evidenced by the latest results from the Singapore Governance and Transparency Index.

Singapore's listed companies improved the quality of corporate announcements and made progress in disclosing sustainable practices beyond just those related to the environment (e.g., employee health, safety and welfare policies). We expect the improvements here to continue.

Strengthening Board and Director Independence: Listed boards in Singapore will be preparing for a change in regulations relating to independence. Beginning in 2022, the Singapore Exchange (SGX) listing rules will require boards to be comprised of at least one-third independent directors. In addition, directors who have served on the same board for more than nine years will be subject to a two-tier vote by shareholders (one by all shareholders and one excluding directors, the CEO and their associates) on their independence. By the time the rule comes into effect, 25 percent of independent directors serving on SGX100 boards will exceed the nine-year limit. SGX-listed companies will have to decide whether to subject these directors to the two-tier vote or redesignate them as non-independent directors.

Stricter Audit/Auditor Regulations: In February 2021, companies listed on the main board of the SGX will need to appoint a local auditor approved by the Accounting and Corporate Regulatory Authority. In addition, the regulatory arm of SGX (RegCo) will see its powers expanded to include the ability to require listed companies to appoint a second auditor should the need arise. This can happen in circumstances where it believes that possible misstatements in the financial statements are pervasive and yet not evidenced by the incumbent auditor's opinion, and where such concerns cannot be addressed by a special auditor.

Gender Diversity: The 2018 revised Singapore Code of Corporate Governance highlighted the need for boards to be sufficiently diverse. Singapore's Ministry of Social and Family Development set a target of having women represent 20 percent of directors by 2020. The top 100 companies listed on SGX are closer to this target, with 30 companies having 20 percent or more board seats filled by women. When including the remaining listed companies, the proportion falls to 15 percent, indicating a continuing challenge for small-cap companies.

Independence and Sustainability in Other Countries in Asia

In **Hong Kong,** exchange listing rules went into effect after July 1, 2020, requiring boards to state what they are doing regarding oversight on ESG issues. Boards will be challenged to ask the right questions on sustainability risks and strategy.

In **Korea**, there is a focus on sustainability and a "no coal" policy, which has led to many banks and energy companies declining to finance coal-related power projects in Asia.

Several global investors noted that director independence remains important throughout the region, in particular in **India**.

Endnotes

[1] Fink, Larry. "Larry Fink's 2021 Letter to " BlackRock. January 2021.
(go back)

[2] Lazard's Shareholder Advisory "Annual Review of Shareholder Activism—2020." Lazard. January 2021.
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[3] Russell Reynolds has one of the leading global board search practices and our experience supports this trend. In the US, the percentage of our board director appointments that were racially diverse grew rapidly from 22 percent in 2017 to 30 percent in 2020. We expect this to continue steadily in 2021 and beyond.
(go back)

[4] "ISS Benchmark Policy Updates 2021." November 2020.
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[5] Glass "2020 Proxy Season Review—Canada." September 2020.
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[12] Glass "2020 Proxy Season Review, Japan." September 2020.
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SpencerStuart

The PE-Backed Portfolio Company Board

Driving Value through a Contemporary Approach to Governance

Amid one of the greatest and longest market expansions of m
days, the private equity industry has continued to deliver outsi
returns. But, these have come with ever-increasing leverage ra
growing exit multiples. Gone is the "golden age" of private equ
making money seemed easier and markets were less efficient a
competitive. As the industry has matured and adjusted to this
reality, the best private equity firms are putting more time, ene
resources into generating attractive returns than ever before.

Adding value goes well beyond "buying right" or just cleaning
balance sheet. Firms today need more operating expertise, pro
insight and "edge" around industry dynamics and commercial
strategies. They can hardly afford missteps on execution given
short timetables to accomplish the increasing number of agen
items required to generate the same kind of historic returns. A
translates into the need for more talent, and that talent needs
specific skills to help investors win new deals, price them effec
manage ownership objectives through an exit. Private equity fi
come to address this need in several different ways, but one se
universal trend is the increasing use of outside independent a
and board directors.

A BOARD MODEL FOR A MORE COMPETITIVE LANDSCAPE

While private equity has long been a user of outside advisers and independent board directors, these individuals were more frequently "friends and family" who operated in token positions and/or were cachet names that helped raise the profile of the sponsor. On occasion, such directors were also versatile and hands-on enough to lend expertise into industries of interest.

Now, sophisticated and bespoke portfolio company boards that leverage outside talent to bolster management teams and help drive operating agendas are increasingly the norm.

As noted by Ken Hanau, a managing director at Bain Capital who leads the firm's industrial and energy vertical in North America: "Doing every part of the business well is more important today than ever because the competition and the capital are getting more and more intense ... we're going to win by an inch, and we don't know which inch will get us over the goal line."

The following best practices are helping many of the top-performing private equity firms get the most value out of their boards in this mature marketplace:

1 Identify independent directors early

Increasingly, sponsors are tapping potential board directors early in the diligence process. In fact, some sponsors are reaching for potential directors before they even see the first book on a new deal. These individuals serve first as outside advisers, helping assess the specific asset as well as its value-creation opportunity and the competitive landscape within the given industry. It is common for multiple advisers to be deployed as firms move into later phases of the diligence process. The extent of advisers' activities varies, based on the individual's availability and capacity as well as the sponsor's evolving needs during the bidding effort. These activities may include: assessing the strength of the management team, validating the existing business model, developing transformation plans, evaluating key commercial and operational risks, and helping to rationalize the price.

In many instances, advisers will be hands-on in creating specific action plans to drive immediate value post close. Among other things, these plans may involve the consolidation of IT platforms, footprint rationalization and organizational redesigns, and supply chain optimization programs. Throughout the diligence process, both sponsors and advisers alike think ahead to the immediate business needs, and how to ensure the infrastructure will be in place to begin addressing these needs on day one.

"It's a much more proactive endeavor today," said Paul Peterson, managing director at Wind Point Partners. "There's much more thought put in very early into a deal. We like to identify directors early so they have some ability to weigh in on the opportunity, and so we think about the makeup of the board throughout the deal process, from the beginning."

Richard Carey, partner and co-head of the industrials sector for Permira, recalls a past investment whose success hinged on the ability to build a stronger, more integrated software capability. This need was identified during the diligence phase and drove both the investment thesis and the early search for a software company CEO to serve on the board. Defining the need prior to the close of the deal allowed both parties to align on the agenda early and not lose time later on. The board remained a step ahead at each turn, driving a "transformation of the entire business model over a short period of time" and creating a highly attractive asset that demanded a premium at exit.

As we see in this example, leading investors are leveraging their advisory networks during deal processes to test alignment around strategic thinking and work styles and to get a better sense for those they want to ask to serve as independent board directors post-close. Similarly, the advisers have the opportunity to get a better sense for the culture and values of the sponsor and for the merits of the transaction, enabling them to do their own diligence before accepting a more formal board appointment. While adding additional independent board directors also occurs later in the investment cycle, waiting to find initial directors may cost the deal or valuable time in refining the investment thesis and operating agenda.

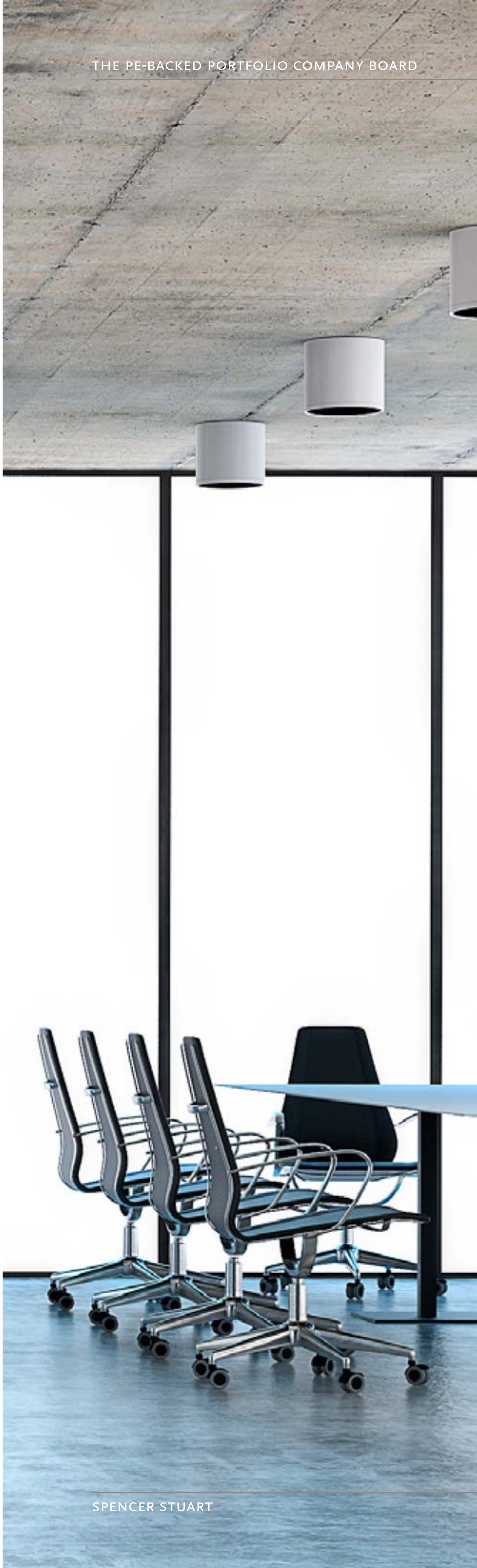
2 Align board expertise to the business needs

In addition to getting ahead of the curve on timing, it is also imperative that independent directors bring a concrete skill set to the table. According to Carey, the private equity model is so well understood at this point that "you shouldn't need to bring someone onto the board just to teach management what private equity is. Now, it's about looking for people whose capabilities and experiences line up with what you need to create value in the first place."

Designing an effective board requires a rigorous review of the skills of the individual directors as well as the capabilities of the board as a whole. These skills can be highly specific and niche or big-picture and strategic — but they are all mission critical.

The potential board needs are virtually limitless. Firms may consider specialized expertise based on a digital/technological strategy, an acquisition or roll-up plan, a massive investment in operational improvement, a large-scale sales force effectiveness project or product innovation and development plans. Most importantly, however, investors rely on independent board directors to push them beyond an internally driven viewpoint and to think about how to leverage investments to truly transform industries. Per Ken Hanau, "Not only do we drive value from the capabilities of our outside advisers, but we also benefit from the network effect of the relationships that these advisers bring."

At Spencer Stuart, we are seeing this trend manifest in a growing number of functional experts on boards, where previously firms primarily tapped only CEOs. Today, we are seeing an increase in other director profiles, including CFOs and leaders in IT, cybersecurity, marketing, HR/labor and even technical experts.



Even firms that have a long history of building strong outside boards have adjusted. "When we were founded 50 years ago, the model was to use retiring or retired CEOs as part of the diligence and governance process, and that remained pretty consistent for most of those 50 years," said Tom Pryma, a partner with AEA focusing on investments in the value-added industrial products and services sectors. "As we've grown in size and now have more companies looking to potentially go public as part of the exit, we're increasingly looking to add someone who's a former CFO and can fulfill the audit committee chair role. In most cases, we've found that role to be valuable even if that company isn't going public. In an age of accounting, IT and cybersecurity issues, having an expert in these areas has been additive."

Despite the growing specialization, there is still value in reserving one or more board seats for a marquee CEO/business leader with the broader business perspective to help mentor the portfolio company CEO, anticipate changes in the business that others might not see, and add to the overall credibility and quality of the investment.

Another emerging consideration is board diversity, though not to the exclusion of other criteria. It would be a mistake to assume that trends in public company governance aren't occurring in certain private equity circles as well. While the call for diversity on boards is more pronounced in public company environments, a mandate for greater diversity is emerging in private equity, as an increasing number of investors are recognizing the value of diverse boardrooms and the richness of perspectives this diversity brings. Limited partners and executive teams are echoing this sentiment, especially as it relates to gender diversity.

As the number and types of director profiles have increased, firms are looking further afield for director talent than in previous years. "In the past, we would have never done a formal board search where we would have retained a firm like Spencer Stuart. But we're doing that more because we are thinking more about the mix of the board and exactly what directors are bringing to bear," said Brian Hoesterey, president of AEA Investors.

3

Build the right board culture

As private equity boards expand and include a wider variety of perspectives and capabilities, the need for the right board culture has become more critical. Historically, boards composed of a small group of insiders were likely to have a natural camaraderie and style fit, with directors bringing similar perspectives about a business to the table. In this era of bigger and more diversified boards, the best private equity firms welcome a broader set of perspectives, but also want to maintain the pace of decision making and a healthy and productive dynamic. Firms are spending considerable time assessing potential directors on their culture fit and ability to work effectively along three dimensions:

» The private equity firm

» The portfolio company management team

» The board and other directors

Most investors expect their portfolio company board members to spend significant time with them in assessing the company's progress against the value creation plan, evaluating whether changes to the plan are needed and prioritizing activities to achieve targets faster. The most effective board members understand the business, are able to assess the horsepower of the talent relative to the needs of the business and are willing to get involved — without trying to run the business. They have the emotional intelligence to build trust with the CEO while simultaneously serving the interests of the owners, and to work collegially with other directors on value-creating initiatives.

The ability to drill down into the business and play devil's advocate while operating at the right strategic level and maintaining the trust of management and fellow directors is a valuable skill set, one that can be challenging for those who are used to being the boss. Hoesterey explained: "What we look for is: One, can they operate in a board environment and be critical yet collegial, because you won't be effective as a board member if you can't do that. Two, do they have enough broad business perspective that they can see things at a higher level and draw analogies from other industries or from their past to potentially help management anticipate challenges and opportunities."

Firms employ a number of tactics to evaluate the ability of independent directors to deftly balance these competing requirements. Some look for directors with prior governance experience, or at least experience where they had to serve as an adviser. Most prefer but don't require previous exposure to private equity. Significant referencing can help build an in-depth feel for the individual's style. Some firms consciously assess potential culture fit of advisers during the due diligence period, which provides an opportunity to see the person interact with stakeholders early on and minimizes the risk of a future board appointment. To take assessment to the next level, firms most committed to making sure their boards are operating at peak effectiveness can leverage modern culture assessment and diagnostic tools to select directors who align with the culture they are seeking to build.

4

Adopt more formal board structures

Having the right people around the table is an important step in building an effective board, but a thoughtful onboarding program and good governance processes and structures are also needed. Though not trying to re-create the extensive reporting requirements of public companies, private equity firms recognize the value of establishing board structures to increase accountability and build good governance habits early, especially when a public offering is anticipated.

Good governance in private equity is about striking the right balance between more formal governance approaches and the need to move quickly and focus on value-creating activities.

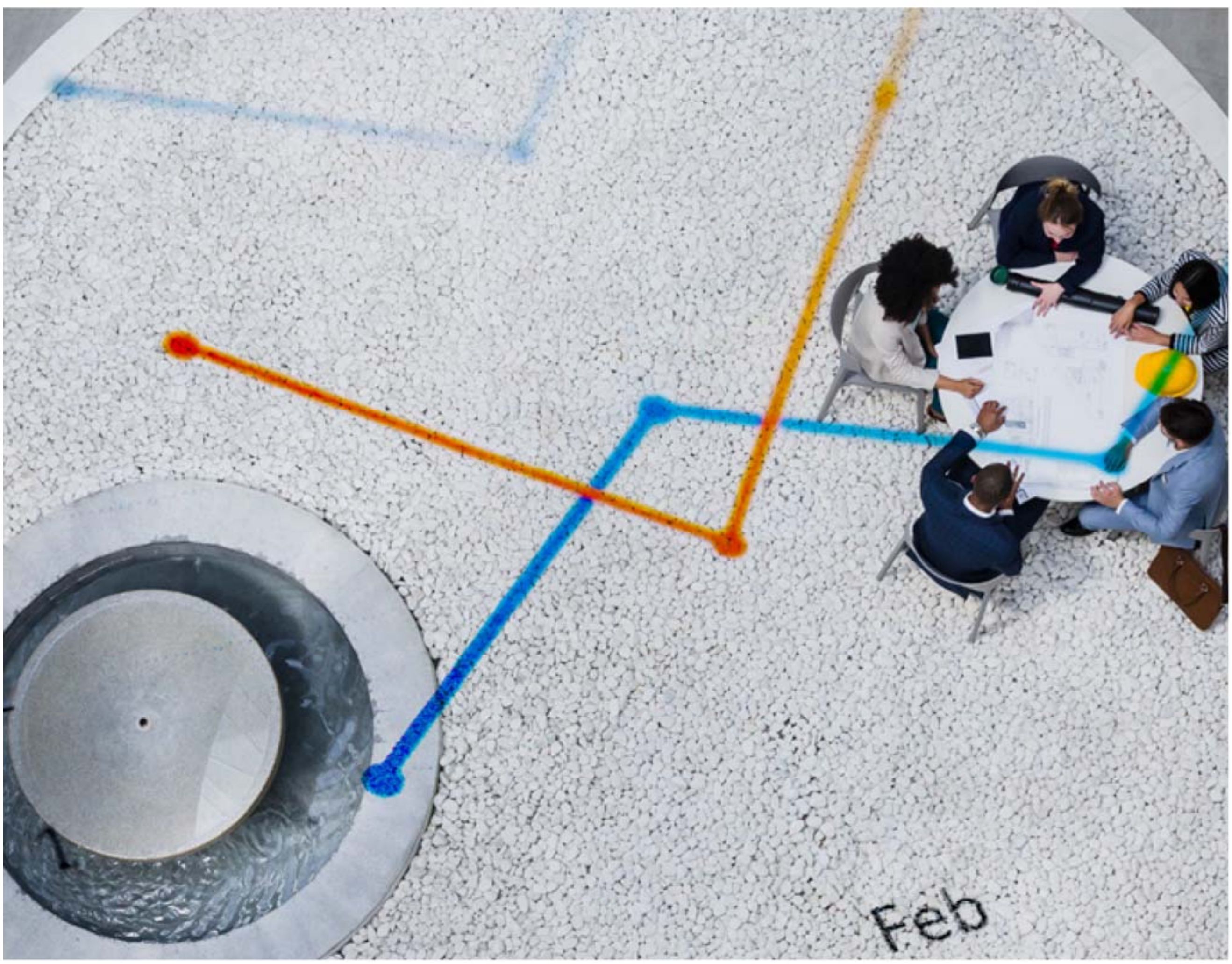
While board sizes vary depending on the private equity firm, as does the number of independent directors, we are seeing a few trends in portfolio company board governance, including:

- **Board committees, especially audit and compensation committees, often with independent directors as the committee chair**. Some committee structures are more formal than others, especially for larger deals, those with public debt or those in club deals with more than one sponsor represented.
- **Board leadership**. Some firms regularly appoint a non-executive director as the board chair to serve as a conduit and point person between the board and management. The independent chair can help protect the CEO while conveying the expectations and demands of the owner, preserving the relationship between management and the sponsor. Firms frequently look to the chair to serve as a mentor to the CEO, especially if the company is public and the CEO doesn't have public-company experience, or even in cases where a CEO is new to private equity, new to the sector or simply a first-time CEO.
- **Executive sessions and board evaluations**. Creating opportunities for the board to have candid conversations about their own performance is an increasingly utilized tactic in helping private equity firms improve board effectiveness.
- **New director onboarding**. Having a thoughtful onboarding program can help new independent directors integrate by immersing them into the board dynamic and operating culture. A strong onboarding program is frequently a symptom of healthy board processes and structures.
- **Compensation**. Portfolio company director compensation is generally more focused on equity, giving directors skin in the game and aligning their incentives with those of the shareholders. However, cash compensation has become an increasingly common component of board remuneration, particularly as boards grow in size and become more diverse. In some cases, cash compensation has equaled what public company peer groups offer. However, in such instances, the larger equity upside is also normalized to public company standards. In almost all instances, independent directors have the additional opportunity to invest their own capital into the deal, providing the chance to maximize their return through an otherwise inaccessible vehicle.

CONCLUSION

Serving as an independent director of a portfolio company can be a tough assig best directors understand their role, provide important industry, operating and insights, and effectively balance their allegiance to the portfolio company and t equity firm. Finding independent directors with the right expertise and the emo gence not only adds value to the particular investment but can also add value t broader network.

With the bar rising for portfolio companies, the old board model is no longer s Today, the most effective firms build highly customized, "working" boards that throughout the entirety of the ownership cycle, often starting before a deal is ev By building boards that align with the business needs early, evaluating the cultu potential directors and establishing board structures that balance good govern value creation, firms will be best positioned to drive value and get the edge they today's highly competitive private equity landscape.



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AUTHORS

Jordan Brugg leads Spencer Stuart's North American Industrial Practice and is a member of the Private Equity, CEO and Board practices.

Kate Smith is an associate in the New York office.

ABOUT SPENCER STUART

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 57 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

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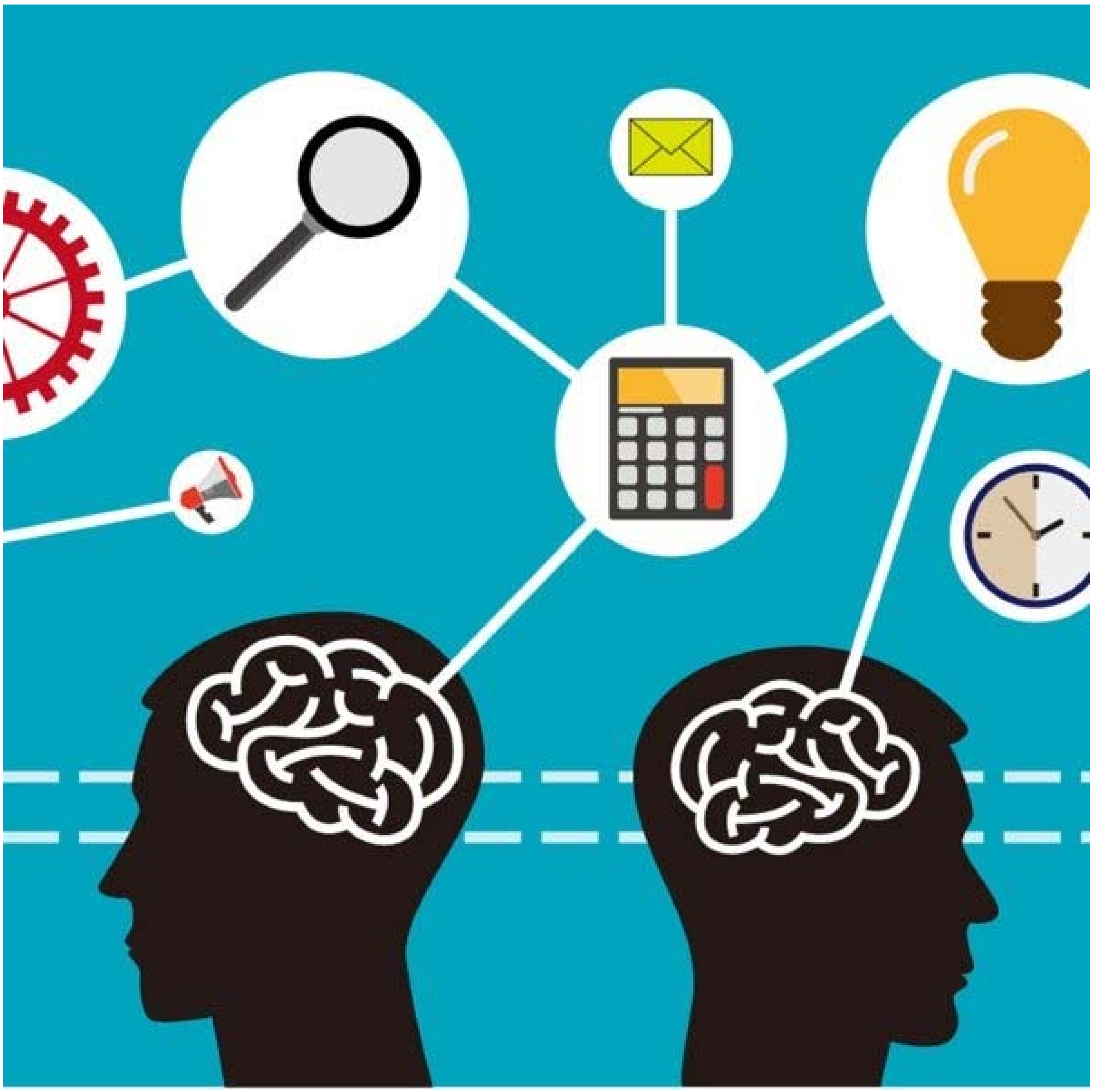
Three Blunt Reasons Most People Don’t Get A Board Seat

Adam J. Epstein

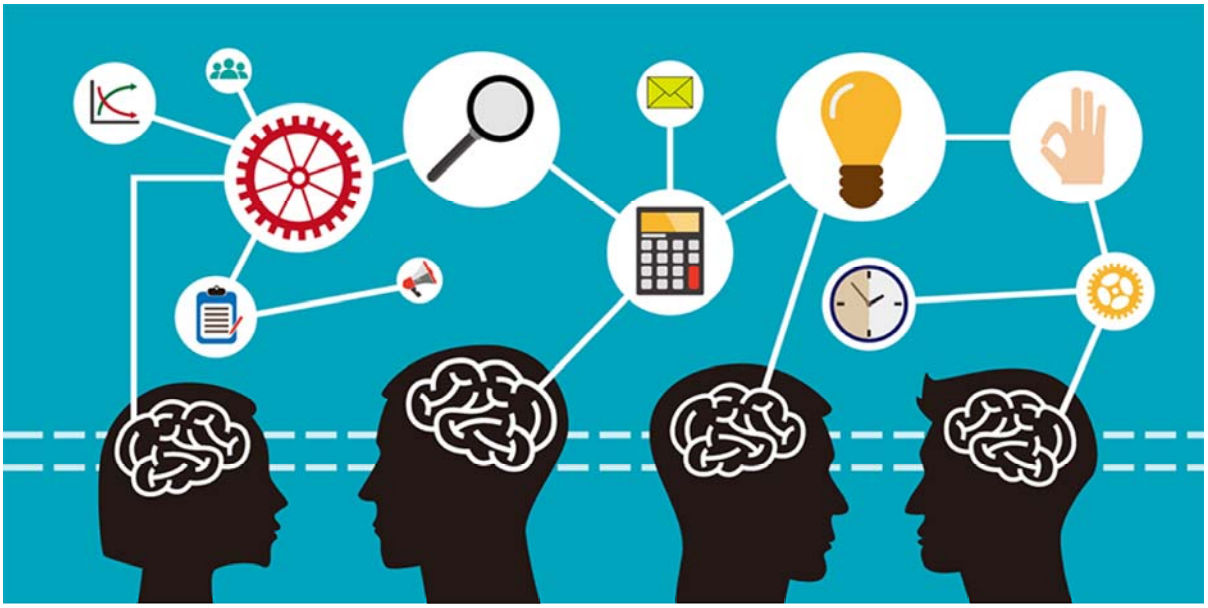


By Adam J. Epstein | NACD Directorship Magazine | July/August 2017

Well-credentialed candidates who are in search of their first board seat routinely approach me and I repeatedly hear the following refrain: "I've been trying unsuccessfully to get a board seat for years. None of the advice I've received has been helpful." As someone who is in boardrooms on a weekly basis, I don't think that this austere success quotient is very surprising. Personally, I would attribute most failures to these three reasons.

You're getting unrealistic advice. There are approximately 15,000 publicly traded companies in the United States, which means that more than 90 percent of public companies are outside of the Fortune 1000. Math alone dictates that a board candidate has a low chance of garnering a mid- or large-cap board seat. Put differently, in 2017 and beyond, unless you're a well-known current or former CEO (or an otherwise prominent person), your chances of securing a spot on a Fortune 1000 company board for your first governance experience are slim.

Consequently, taking board search advice from mid- and large-cap executives or service providers that predominantly cater to those companies is of limited value. The small-cap ecosystem, where the majority of first-time candidates will serve, is notoriously idiosyncratic; you either understand how to navigate it, or you don't.



Your networking is counterproductive. Telling everyone in your network you'd like to be on a board is an incomplete—and poor—statement of intention. In the past 7 years, more than 200 board candidates have contacted me. I've not gone out of my way to help anyone who's stated: "I would love to find a board seat." When I hear that, the former institutional investor in me recoils. What I hear instead is, "Hi, I'd like to find a part-time job I perceive to be high paying. Within reason, any company will do, because I can't be bothered to proactively narrow my search aperture." The only people I've assisted are those who have spent considerable time and effort to identify specific companies they are keen to serve, and who can make a compelling case for their candidacy. Boards only need directors who are uniquely suited to drive shareholder value and who display a passion for undertaking their prospective roles.

Start with CEOs. While it's true that independent nominating and governance committees in Fortune 1000 companies predominantly select those boards, outside of that continuum very little has changed. Any experienced institutional investor will tell you that CEOs still choose board members at most public companies. Since your board appointment is likely to originate with the CEO, once you select a company to target, you should try to make your case to the decision maker sooner as opposed to later.

Board candidates also need to face reality about how much money they might actually make as public company directors. The majority of candidates who approach me get all of their information from the large-cap focused *New York Times* or *Wall Street Journal*, and believe that any smart person with some extra time on his or her hands can make $250,000 per year for each board seat. That is fiction.

If a tennis court represents the number of public company directors in the United States, the number of directors making more than $250,000 per year from board service (much less from a single board seat) is more or less equivalent to the size of a small dining room table. In fact, there are thousands of public company directors in the United States who barely make enough each year from their board stipends to *buy* a small dining room table.

Taking some time to right size your board search expectations is worth the effort. After securing that first board seat, many friends and colleagues have emailed me to say that it's the most challenging —and the most rewarding—job they have ever had.

The author, Adam J. Epstein, is a former institutional investor, and now an advisor to CEOs and boards of pre-IPO and small-cap companies through his firm, Third Creek Advisors, LLC. He speaks monthly at corporate governance and investor conferences and has appeared internationally more than 100 times since 2012. Mr. Epstein is a key contributor to Nasdaq's new *Amplify* small-cap content initiative, and a distinguished National Association of Corporate Directors (NACD) Board Leadership Fellow, and faculty member. He is the small-cap contributing editor for *Directorship* magazine, author of *The Perfect Corporate Board: A Handbook for Mastering the Unique Challenges of Small-Cap Companies* (New York: McGraw-Hill, 2012), and contributing author to *The Handbook of Board Governance: A Comprehensive Guide for Public, Private and Not for Profit Board Members* (New Jersey: Wiley, 2016). In June 2017, *The Perfect Corporate Board* was the #1 ranked corporate governance book on Amazon.com, and, in June 2016, *The Handbook of Board Governance* was the "#1 New Release" in corporate governance on Amazon.com. Connect with Adam on LinkedIn or learn more at https://adamjepstein.com/.

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Categories: Articles, Blog, General, Small-Cap

Tags: Corporate Governance, Small-Cap Boards

The Five Most Common New Director Questions

Advice for First-Time Board Directors on Getting a Strong Start

POINT of VIEW

SpencerStuart

No matter how experienced they are as leaders or how much previous boardroom exposure they have had, most first-time directors will admit to having some trepidation before their first board meeting: What will the first board meeting be like? Should I say anything at all in my first meeting? Am I prepared?

Helping these directors quickly acclimate matters because, depending on the country, first-timers can represent a sizable share of the new director population in a given year. One-third of newly appointed S&P 500 directors in the U.S., for example, are serving on their first corporate board, as are about 30 percent of new U.K. non-executive directors. Given the escalating demands on boards, new directors must be prepared to quickly contribute.

In working with first-time board directors around the world and the chairmen and lead independent directors of the boards they join, we have found that their questions and concerns about board experience typically fall into the five following areas:

- How do I know what's the right board to join? Should I say yes to the first board invitation?
- What do I need to do to prepare for my first board?
- How much should I speak up during the early board meetings?
- How can I have an impact for the board and company?
- What if I have concerns? How do I disagree or raise questions when I'm new?

To explore these first-time director questions in more detail, we spoke with directors around the world who shared what they learned from their first board experience and offered observations that boards can use to enhance their new director onboarding programs.

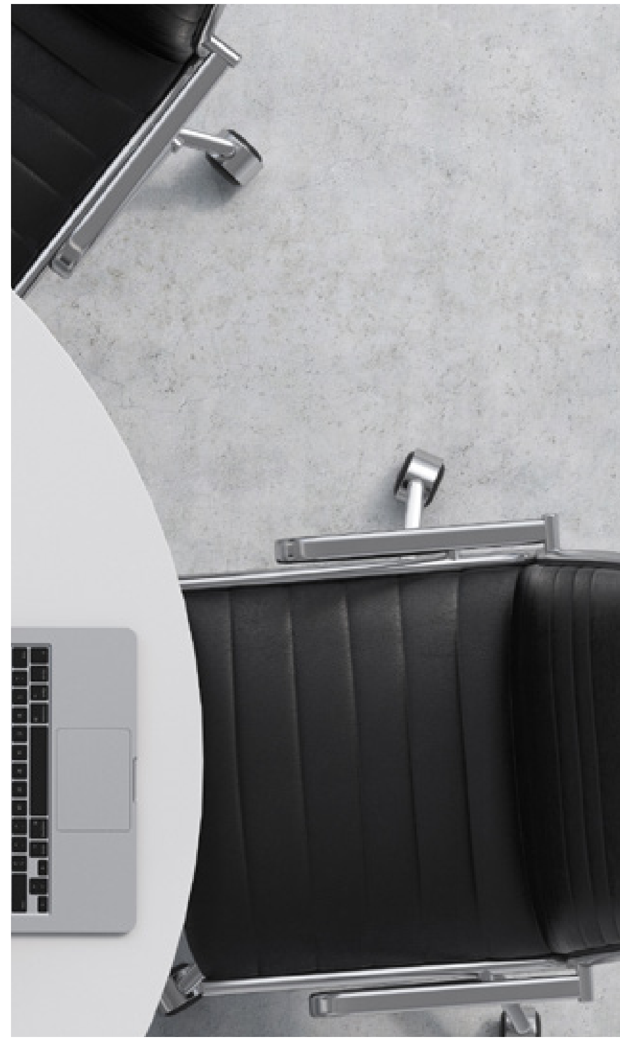
Selecting the right opportunity

Most directors would describe their first non-executive board role as a major professional milestone, a terrific growth opportunity and something they are very glad they did, even though it represented a significant commitment. Given the demands of board service — 20-30 days a year up to nine or more years — it pays to carefully weigh the pros and cons of a given opportunity. The key question, say directors, is whether it is mutually beneficial — one that the prospective director finds engaging and useful as a growth opportunity and that adds a valuable perspective to the board. As one director put it, "You need something that will bind you to the job, because it is a lot of time." Ask yourself, "Is this a business that I will still be interested in, say, in six to nine years' time?"

Other considerations may be who else is on the board — especially the opportunity to work with a good chair and gain exposure to experienced executives from other industries — the strength and diversity of the management team, and how well the board and management team work together, which in part reflects how much the CEO values the board's contribution. "I asked the CEO, 'Do you like having a board?' And he very honestly said, 'Mostly.' If he'd said to me, 'I think they're marvelous all the time,' I'd know he was lying because that's just not how executives think," recalls one director.

When considering whether you can balance board service with other commitments, particularly if you have a full-time executive role, understand that you will likely underestimate how much time it will take, especially early on. "It took much more time than I thought would be required initially to get up to speed — to understand the business, strategies, key issues and opportunities," one director told us. If you have to travel to meetings, plan on that adding a day or two to the board meeting commitment. You also should allow time for work related to committee assignments and, depending on your expertise, you may be tapped to mentor someone on the executive team, work on issues outside of board meetings or respond to unexpected demands related to a crisis or deal. "It can be hard to budget for that, and it can happen at the worst time. But you can't shake off your responsibilities at the time when you're needed most, when there's an activist or stakeholder issue, a significant transition or a succession planning issue that you have to work through."

Conversely, don't immediately take yourself out of the running for a very valuable opportunity. "If I thought too much about the time commitment, there is a chance I would have turned it down, which would have been a terrible thing," one director told us. Equally do your research; it's amazing the sorts of businesses that initially might seem not right for you but on further research are really interesting and worth pursuing.



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SPOTLIGHT: DIRECTOR INDUCTION BEST PRACTICES

Most boards have a formal induction program, which typically includes the following:

- Presentations from management on the business model, profitability and performance
- A review of the previous 12 months' board papers and minutes to provide context on the current issues
- Meetings with key business executives and functional leaders, including finance, marketing, IT, HR, etc.
- Site visits providing new directors a better sense of how the business works and an opportunity to meet people on the ground
- Meetings with external advisers such as accountants, bankers, brokers and others
- Explanation of regulatory and governance issues
- Attendance at an investor day

Mentoring: First-time directors, especially, tell us they appreciate having a mentor during the first six to 12 months on the board. An informal mentor program pairs a new director with a more experienced director who can provide perspective on boardroom activities and dynamics or help with meeting preparation, explain aspects of board papers, and debrief and act as a sounding board between meetings.

What new directors can do: Don't be afraid to ask for the process to be tailored to your needs if you want to explore certain areas of the business in greater depth.

Preparing for the first board meeting

As part of your due diligence, you will already have read published information about the company, and it goes without saying that new directors will have received a wealth of material as part of the onboarding process and in advance of the first meeting. What many don't appreciate before they've done it is just how much pre-reading material there can be, and the amount of time it can take to thoroughly digest it.

Many first-time directors have presented to their own company's board of directors, but these encounters provide just a narrow glimpse of the board's responsibilities. For this reason, some first-time directors find it helpful to attend a formal director education program providing a deep dive into corporate governance, including the board's fiduciary responsibilities and areas such as NED liability, reporting to shareholders and reporting on sustainability. "They expect you to have an understanding of governance when you come in. They're happy to answer questions, but they're not going to know what you don't know. If you don't even know what you don't know, then you don't know to ask," said one director.

Most formal onboarding programs encourage new directors to meet with key members of management, and many will schedule site visits to key operations. "It was really helpful to spend quality time with each of the CEO's main direct reports so that I could get a sense of their top priorities and how they think about running their businesses. Without that little additional context from some of these executives in the organization, you're really operating in a bubble."

One-on-one meetings with as many of other directors as possible before the first board meeting can provide a sense of the priorities of the board, and the dynamics among directors and between management and the board. When these meetings are not an explicit part of the onboarding process, it can feel awkward to reach out to other board members, but directors say arranging a breakfast or dinner meeting or even a coffee with other directors, starting with committee chairs, is well worth it. "Everybody is busy, but the time you take to meet people upfront definitely pays dividends in the long run because you get context you wouldn't have gotten any other way. You can't replace seeing someone's facial expression or their gestures while they're talking about a certain topic. You'll see how much something worries them. How emphatic they're being. You'll see their brow wrinkle when you dig deeper into certain issues."

What else did new directors find most helpful in preparing for their first board meetings?

- The key performance indicators (KPIs) and lead indicators for the company. "What do I have to keep my eye on? Every other question ends up stemming from those KPIs."
- A glossary of company and industry-specific jargon and acronyms. "Many companies overlook this, but it's a real impediment to being productive in your first couple of meetings."
- Meeting with as many members of the executive committee or senior management team as possible.
- Understand how the board views sector and company risk. How does management assess, present and articulate risk? Are assumptions discussed and challenged clearly and freely?
- A detailed overview of the operations, operational challenges and underlying infrastructure. "You can think you know how an airline runs, but when you walk through the operation center and see hundreds of people managing thousands of flights in the air at the same time around the world, you begin to understand the complexity of the business."
- A holistic view of the board calendar and activities — not just what the next board meeting is about, but the key processes of the board over the course of 12 months of board meetings. "When you're new, you might wonder why the board isn't talking about the compensation implication of a decision, as an example, but everyone else knows that's because the next meeting is the one when the board does the comp review."
- A detailed explanation of how the finances are organized, including a complete listing of accounts in an accounting system. "Everybody's chart of accounts is different. Depending on how it's drawn, you can get a very different look at P&L."

Participating in early meetings

First-time directors tend to assume that they should say little during their first few meetings, while they observe and get to know the board and its dynamics. The directors we spoke with recommend a more balanced approach: listen more than talk, but be willing to participate in the discussion, especially in your area of expertise. "You're there for a reason. You're there because they thought you could add value." New directors appreciate getting feedback from the board chair or lead director about their contribution level — so, if it's not given, directors should ask for it. "After the first meeting, the lead director said, 'I'm glad you spoke up a couple times. Do that more. We brought you here to get your point of view so feel free to speak up.' It was great to hear that. You never want to hear it the other way, where you spoke up too much or took up too much air time."

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Nothing is more valuable for getting a sense of the board dynamics and directors' expectations for how you should behave in those early meetings than one-on-one discussions with individual board members. "I wanted to get to know them a little bit personally before meetings where more-involved or controversial topics would be discussed so that we at least have met and have a little bit of an understanding of one another."

New directors also appreciate when the board chair or lead independent director is proactive in making sure that the multiple voices are heard in board discussions. "Even when the board composition is diverse along many dimensions, your work isn't done. You still have to actively work to avoid conforming your behaviors and opinions and to hear diverse viewpoints. That's a constant work in progress."

Having an impact

"How do I have impact?" It's a question that is top of mind for most new directors, especially those who were brought on the board because of their expertise in areas such as digital technology, product development, risk management or go-to-market experience. Depending on the size of the company and experience of the management team, a new director's involvement outside the boardroom could include interviewing candidates for key roles, mentoring senior leaders, advising on specific topics or making useful introductions. "Engagement has to be on the terms that work for the executive team," advised one of the directors we interviewed.

New directors with specialized expertise also play a role in educating other directors. "You don't want a situation where the rest of the board sits back while all the questions flow to one person. Over time, all directors want to learn how to ask challenging questions in these areas. I find that other directors ask me questions like: 'Why did you ask that? Why did you put the question in this way? What were you looking for? There seems to be something in the response to that question that troubles you, so let's peel that apart a little bit.'"

First-time directors can find it challenging to know if they are having a positive impact on the board — and that the board is positively contributing to the business — because of the lack of regular feedback. "I would like a little more focus on making performance feedback a continuous process, particularly for the first six to 12 months. Following every meeting, there should be opportunities to point to out what's working well and what could work differently, even if it's just a 10- or 15-minute conversation to reinforce and correct the issues that didn't go well in context." So it is important to ask the chairman for feedback.

"You're not going to know everything going in. Expect that you've got a lot of holes. When I have big questions, I'll grab a board member who I know will have the context and say, 'Hey, I noticed this,' or 'I had a question on this,' or 'I'm sure there's context here that I don't know about,' and just let them talk."

Raising questions

By definition, a new director lacks perspective on the board's history — the sacred cows, the topics that have been debated ad nauseam already and other important context. This makes knowing when to raise questions or to push for more information all the more difficult. "Fresh eyes are good, but one of the worst things you can do is walk into the board and hone in on topics that aren't going to be productive, that the board has already hashed to death." That is why it is important to have read the board minutes, if not papers, for the previous year or so, so you can understand some of the key issues and debates.

Getting a read from other directors about the board's priorities can provide important context, as can using meeting breaks to follow up on your questions. "You're not going to know everything going in. Expect that you've got a lot of holes. When I have big questions, I'll grab a board member who I know will have the context and say, 'Hey, I noticed this,' or 'I had a question on this,' or 'I'm sure there's context here that I don't know about,' and just let them talk."

When a director does have questions or concerns that go deeper, the delivery is important. "Asking questions, even when you know what the answer is, rather than making declarative statements is a good general approach. Other directors will be receptive to your questions if you communicate that you're trying to get to the heart of important issues and facilitate discussion that needs to happen to gain consensus on direction." How you frame questions also is important: Ask, "How are you thinking about ...?" rather than trying to be too prescriptive and asking, "Have you considered ...?"

Conclusion

Most new directors truly value their first board assignment, despite the time demands and steep learning curve. First-time directors are most likely to enjoy the experience when they conduct careful research and due diligence before accepting a board invitation, prepare thoroughly for board meetings and have the confidence to be themselves in the boardroom.

Authors

George Anderson (Boston), Tessa Bamford (London), Jason Baumgarten (Seattle) and Kevin Jurd (Sydney)

Participating Directors

Stewart Butel Former managing director of Wesfarmers Resources and independent director for DUET Company Limited	**Admiral (Ret.) Gary Roughead** Former chief of Naval Operations and independent director of Northrop Grumman Corporation
Amy L. Chang CEO and founder of Accompany and non-executive director of Cisco, The Procter & Gamble Company and Splunk	**Michelle Somerville** Former KPMG audit partner and independent director of The GPT Group and Challenger
Sue Clark Managing director of SABMiller Europe and non-executive director of Britvic	**Sybella Stanley** Director of corporate finance at RELX and non-executive director at Tate & Lyle and Merchants Trust
Greg Couttas Former Deloitte audit partner and non-executive director of Virtus Health	**Jane Thompson** Former senior vice president of Match.com and independent director of Michael Kors
Tom Killalea Former Amazon vice president and independent director of Capital One, Carbon Black and MongoDB	**Gene Tilbrook** Chair of The GPT Group Nomination and Remuneration Committee
George Mattson Former managing director of the Global Industrials Group for Goldman Sachs and independent director of Delta Air Lines	**Trae Vassallo** Co-founder and managing director of Defy Partners and non-executive director of Telstra Corporation

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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 56 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

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