

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



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.

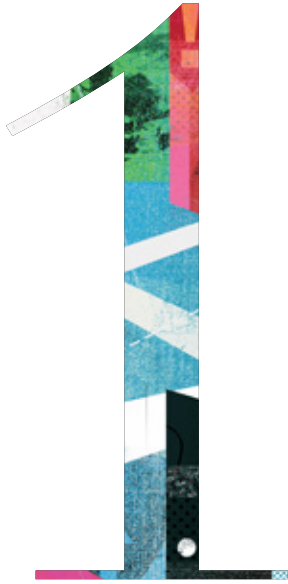
A curriculum vitae (CV) and references are the typical starting place for sizing up candidates for their potential fit against the non-executive director role specification, since they will paint a picture of the candidate's accomplishments and likely provide insight into skills the board might find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





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.

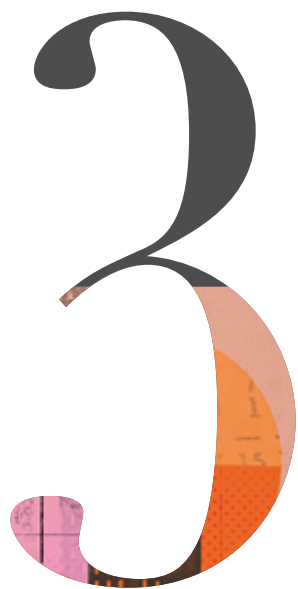


Intellectual approach

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.



Integrity

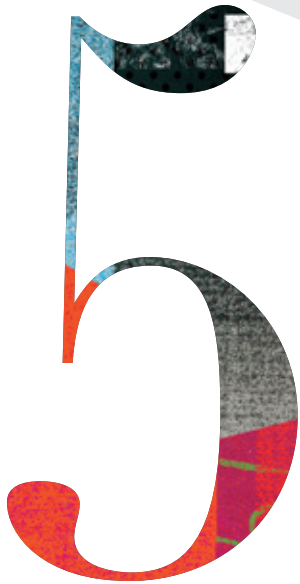
This can be a difficult area for nominating committees to assess. Board director candidates have usually achieved a great deal in their careers, but their integrity in dealing with people and the degree to which their decisions have been guided by principles may be less obvious. When assessing candidates 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.



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.

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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

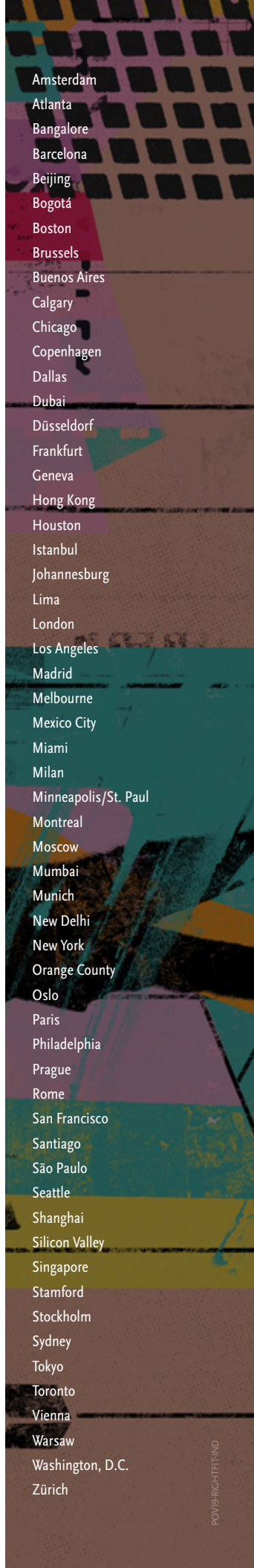
Evaluating candidates for board membership is both an art and a science. Sound judgment is required to collect the right evidence and weigh the benefits against the risks. Context must be factored, too: an individual might be an excellent prospect as a non-executive director, but just not on that particular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

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