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Recruiting the first-time director

In the quest for new skills and more diverse membership, boards are increasingly open to taking on first-time directors. This article explores the implications of this trend, from the qualities expected of first time-directors to how they are identified, evaluated and onboarded.

Board chairmen and heads of nominating and governance committees, particularly those leading strong and competent boards, are starting to think more broadly about what makes a good board member and are increasingly open to appointing first-time directors. They may do so for a variety of reasons, for example, to correct a gender imbalance or create a generational shift; to bring in an expert on digital, social media or consumer behavior; or to hire someone with experience in a specific geography.

In Europe, the vast majority of first-time directors are women, due to the plethora of legislation and targets adopted at the national level to increase the presence of women in the boardroom. The intellectual case for boardroom diversity is compelling. Companies and their shareholders stand to benefit from having broader perspectives aired during boardroom debate, including better representation of customers and the workforce. Diverse perspectives, so the argument goes, reduce the likelihood of "groupthink" and ultimately leads to better decision-making. For the time being at least, diversity in Europe is predominantly a question of gender, although there is a growing recognition that having international and cultural diversity is equally important.

In Asia, gender diversity is also the most likely reason for the appointment of first-time directors; if the current underrepresentation of women on boards is to be addressed systematically, the number of first-time directors will continue to rise.

In the U.S., the picture is different. Although around one-third of new directors are joining their first board, diversity is not the main driver. The recruitment of these new directors is as much about bringing specific skills and knowledge to the board as it is about responding to calls for diversity. The high number of new directors is partly explained by the fact that the traditional candidate pool of active CEOs is shrinking — the 2012 *Spencer Stuart Board Index* reports that 46 percent of CEOs in the S&P 500 serve on an outside board, compared with 52 percent in 2007. In the U.K., a declining number of CEOs and CFOs in the top 150 companies sit on outside boards (40 percent and 23 percent, respectively).

■ Exploring new candidate pools

Despite the quest for more diversity and the pressure to bring in new skills, few boards are willing to compromise on recruiting the right person with the right qualities who will fit with the culture and dynamic of the board. The global trend towards smaller boards, together with increased responsibilities for board members, means that boards cannot afford to carry underperforming directors. The risks involved in appointing first-time directors are relatively high and mistakes are easily made.

The board needs to conduct its due diligence thoroughly, finding out in interviews what potential candidates have achieved and taking references from people who have worked with them day-to-day and can vouch for them. "Quiet referencing is the most effective," says Euleen Goh, nonexecutive director of Aviva, Singapore Airlines and the boards of other major companies. "It is also critical for the lead candidate to have individual discussions with each director to gauge the candidate's personality and assess their fit with the board."

> *"The board needs to conduct its due diligence thoroughly."*

In the U.S., first-time directors tend to be senior executives who have already had some exposure to the board, such as CFOs or executive committee members who have run large divisions of multinational companies. First-time directors will usually be familiar with the industry the company operates in, although people with strong finance experience may find it easier to join a board in a sector that is new to them.

In Europe, as a result of targets and quotas for women, executive search firms are broadening their search for board candidates. This means looking inside listed companies for top-quality executives who are hidden from view but may be running a large-scale operation or have invaluable experience to offer. However, since there is a dearth of women in senior executive positions in many countries, boards are expanding their searches to include women from other walks of life, such as the civil service, academia, the professions and the nonprofit sector.

Yap Chee Keong, lead independent director of The Straits Trading Company Limited and nonexecutive director of several other Singapore listed companies, believes that "competence and ability to contribute are more important than board experience in itself. The board should bring in 'fresh blood' as long as they can contribute. For example, if the board feels that it should have a member who is an expert in social media, then such a person may be in his or her thirties. Such a person is unlikely to have substantial board experience."

> *"It is difficult to make a contribution if you have no commercial experience at all."*

Board candidates from outside the business world are often at a disadvantage because they may not have managed a P&L or developed a sufficient level of financial expertise that will enable them to contribute to board decision-making over complex financial matters. Board candidates from outside the commercial world must be prepared to get up to speed on financial matters before they can be considered credible candidates, since this is one selection criterion on which few boards will compromise.

Aside from establishing the financial acuity and commercial acumen of a prospective director, how can boards determine whether a candidate with little or no boardroom experience has what it takes to make a truly effective contribution?

Identifying the right qualities

By focusing on the intrinsic qualities of first-time director candidates, Spencer Stuart has developed a set of objective measures to help chairmen and nominating committees determine whether candidates without board experience have the capacity to be high-performing nonexecutive directors. Establishing these qualities is particularly important when considering people from outside the business world, for whom the learning curve involved in joining a board is extremely steep.

> Spencer Stuart's Board Intrinsics™ assessment approach focuses on intrinsic, underlying talents and competencies, assessing potential nonexecutive directors against five key attributes: Intellectual Approach, Independent-Mindedness, Integrity, Interpersonal Skills and Inclination to Engage (Motivation). Those candidates who score well in all five areas are most likely to be capable of contributing as "all-round" directors, in addition to the specific knowledge, skill or set of experiences that makes them of interest to boards.

Why are these qualities so important? Certain elements of the board director's role, such as understanding and applying corporate governance best practices, can be acquired through training and directed reading. Other aspects, such as developing a deep understanding of the company's strategy, require judgment and intellectual agility, which are critical components of business leadership. These are less easy to learn. Board directors need to be comfortable dealing with complexity, able to bring analysis and logical reasoning to bear on a new, ambiguous or fast-changing situation in order to reach a sound decision. Prospective directors who can work with complexity in an unfamiliar environment are the ones most likely to learn and adapt to the challenges faced in the boardroom.

Intellectual agility is vital for nonexecutives, especially those who are new to the sector and have not had the luxury of decades of gradual learning to build up their knowledge of the company's situation. "Directors need to have the capacity to assess quickly and identify key strategic issues," says Odile Desforges, previously executive vice president of quality and engineering for Renault and independent board member of Safran and Sequana. "To establish whether a candidate has this ability, interviews should be organized and structured as if for an executive role."

To make an insightful contribution, nonexecutives need to gain a rapid understanding of the business. This requires them to absorb, analyze and process a great deal of complex information to identify the questions that really matter. For a nonexecutive, this is not a one-time process. Being outside of the mainstream of the company, the nonexecutive has to work with partial information, and must apply analytical skills and logical reasoning to get to the heart of an issue in a short time. The nonexecutive is also required to think strategically about the business, looking five or 10 years ahead.

It is nearly impossible for someone to learn the skills involved in thinking strategically and handling complexity in a new or changing environment if they have not learned them early in their career. However, it is relatively easy for someone who has these higher-order cognitive skills to acquire facts and knowledge.

> *"The one thing I had to understand was the difference between being an executive and being on the board."*

One of the most common difficulties for first-time directors, especially senior executives, is adjusting to a more detached, supervisory role, focusing on the strategic rather than the operational agenda, and understanding the dif-

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10 Questions Prospective Directors Should Ask Themselves

Before accepting an invitation to join a board, potential first-time directors should carefully consider whether the opportunity represents a good fit with their experience, capabilities, interests and availability. Here are some questions prospective directors should consider.

1 WHAT DO I HAVE TO OFFER?

Before actively seeking to join a board, think hard about what aspects of your background, knowledge and skills are likely to prove valuable. Rework your resume to make it more relevant to the work of a board. Think about contributions you have made to strategy development and projects that have crossed functional and divisional boundaries.

2 HOW WILL I FIND THE RIGHT BOARD?

Be patient; it can take time. Don't be surprised if you go to many interviews before you find a board that is both willing to hire you and a good fit. This is perfectly normal. Due diligence is vital. Don't overlook it because you are so excited about joining a board.

3 HOW MUCH DUE DILIGENCE SHOULD I DO?

Select a directorship with great care and be rigorous in your due diligence. As an executive, you may only have time to be on one outside board, so the choice of company is incredibly important. Once you take on a directorship you should stick with it; assume that you will be on the board for six years. If you join the wrong board, it will remain on your resume forever, but judging the opportunity is difficult when you are not joining in an executive capacity. You won't have the same level of access to data, so trust and sharing the company's values are vital.

Meet as many people as possible, satisfy yourself that the board is well-chaired and that meetings are run effectively. Ask to read the minutes of the last year's board meetings. Talk to experts outside the company to get a perspective on the company's image and its competitors. Above all, make sure that the cultural fit is a good one and that your voice will be heard.

4 DO I HAVE THE TIME?

To do the job well and with the appropriate thoroughness is a significant commitment. Understanding the levers of the business can take some time. It is important that your employer is on board and that you are confident that you can manage your own time commitments in such a way that you can attend board meetings without diminishing your executive capacity. Ask for board meeting dates for the next three years.

5 CAN I CONTRIBUTE?

Be clear about why the board is interested in you and how your presence complements the existing team of directors. If you have no apparent role you will lose confidence. Work out where you can deliver unique and differentiated value and try to demonstrate that quickly. However, the first year will involve a steep learning curve as you gain a thorough understanding of the business model. Bear in mind that there is always more to a business than meets the eye. A good chairman and CEO will give you time to learn the ropes, but you must be absolutely committed to this.

6 WILL I LEARN?

How much you stand to learn will have a great deal to do with the level of intellectual curiosity and open-mindedness that you take into the role. Your choice of board should be determined not only by how much you have to offer, but also how much you can learn. Having a mentor on the board, at least for the first year, is highly recommended. He or she can help prepare you for what happens at board meetings and debrief with you in the week or two following.

7 Will it be fun?

This will depend to a large degree on having a clear sense of purpose about your role, the cohesion and unity of the board, and the chairman's leadership style. Directors who choose their boards wisely, experience a cultural fit and strive to make a positive contribution are the ones who derive the greatest enjoyment from their roles.

8 What is the time commitment?

One of the pitfalls of becoming a director is underestimating the amount of time it takes to understand the business and get up to speed. It is not just a question of preparing thoroughly for meetings (reading the board papers is essential), but making time early on for the induction program and associated site visits and meetings with management. Think carefully about re-prioritizing your executive responsibilities in order to leave enough time for your role as an outside director.

9 Does my employer fully support my outside directorship?

You may find it difficult at first to convince your employer that it is a good idea to join an outside board, since there may be no precedent. If you think you are ready and have genuine enthusiasm for the task, work on selling the benefits. Your company will derive the greatest benefit if this is seen not just as a way to progress your own development, but as an opportunity to apply what you learn as an outside director to your executive role. Once you have secured a directorship, make a point of sitting down with your CEO once a year to describe what you have learned and how you are incorporating this into your work for the benefit of the company.

10 Should I expect a board induction?

Prior to joining your first board, it is a good idea to participate in one of the many new director training programs run by board advisory companies, and to talk to other directors who have recently joined a board for the first time. Having accepted a directorship, you should expect to go through an induction process, which will involve learning more about the business and its products, meeting the senior management team and going on selective site visits. The induction is usually overseen by the company secretary; don't be afraid to ask for the process to be tailored to your needs if you feel you want to explore certain areas of the business in greater depth.

ference between governance and management. "I'm quite strategic, but it was imperative to understand the difference between being an executive and being on the board," says Daniela Barone Soares, chief executive of Impetus Trust and nonexecutive director of Halma. There are new conventions and protocols to learn, and some first-time directors take longer than others to make the mental switch between executive and nonexecutive ways of thinking and behaving. Ulrike Steinhorst, head of strategy, planning and finance at EADS Technical Office and independent board director of Valeo, recommends taking a cautious approach to contributing in the early stages. "You should avoid being too assertive when you do not yet know enough about the company and its challenges."

There is a tendency for new directors to spend too much time "in the weeds," focusing on details that should be left to management or taking up management time with inappropriate requests. Chairmen need to be sensitive to the challenges in making this transition and provide advice to the new director on the nuances involved. One recently appointed director consciously sets aside her executive perspective when acting as an outside board director. "As a nonexecutive, I try to frame questions carefully to show that I'm not yet sure about something but want to give management the opportunity to explain and convince me."

Lilia Jolibois, senior vice president of marketing and sales for Lafarge Aggregates, Asphalt and Paving and independent board member of Theolia, sums up the ideal qualities of a first-time director succinctly: "An openness and desire to learn; diplomacy and making the effort to integrate into an existing team; courage and tenacity to ask the tough questions and get answers, pursuing what is best for shareholders and the company."

Getting up to speed

Chairmen and boards have a responsibility to ensure that first-time directors are given proper support in learning their role so that they can get up to speed as quickly as possible. Whereas historically some boards may have tolerated new directors taking a back seat and observing proceedings for a year or so before making an active contribution, few directors have that luxury today. High-quality onboarding is therefore critically important.

Director induction programs are usually run by corporate secretaries, sometimes with input from HR. It helps if the new board member has had some prior general training in the role of a director, so that the induction can focus on the company, its products, services and key players, the wider business context, and the culture of the board and how it operates.

Unfortunately, the quality of board induction programs is variable, and some companies do not even provide them. It is not enough for the CFO and general counsel simply to run through the core finance and governance issues; the new director should ideally spend some time at company headquarters with senior executives from each of the main functions (investor relations, HR, audit, IT, etc.) as well as with fellow directors. Even if board meetings take place at different company locations on a rotational basis, new board directors should be encouraged to make site visits to see as much of the company's operations on the ground as they reasonably can.

"The best chairmen take a personal interest in ensuring that first-time directors feel comfortable from the outset."

One of the beneficial outcomes of board assessments has been a recognition by boards that they need to develop well-structured induction programs. The best examples typically take several days and involve presentations by the heads of all the company's functions and divisions, such that new board members feel fully immersed in the business and know where to go for additional information.

The best chairmen take a personal interest in ensuring that first-time directors feel comfortable from the outset and are given every opportunity to speak at meetings. Making a concerted effort to help a new director overcome any gaps in knowledge or lack of experience is critical. "Having another new nonexecutive director on the board at the same time was helpful, enabling us to compare notes and counsel each other," says Susan Taylor Martin, president of Reuters Media for Thomson Reuters and a nonexecutive director of Whitbread Group.

Mentoring and training

Sometimes a chairman will pair up a first-timer with a more experienced director who can provide help early on with meeting preparation, explain aspects of board papers, debrief and act as a sounding board between meetings. "Individual mentoring is best when one can have confidential discussions with an experienced board member and raise specific questions," says Martine Griffon-Fouco, member of the management board of Assystem and independent board member of Groupe Gorgé.

"I expect a mentee to take it seriously and prepare questions."

This form of mentoring is becoming more common and is particularly valuable for first-time directors who lack the perspective that comes with belonging to the C-suite. First-time directors often need guidance on how to behave around the boardroom table. Phoebe Wood, board director of Coca-Cola Enterprises, Invesco and Leggett & Platt says that a mentor is not the same as being a tutor; if the first-time director has not had training they should seek it out as a priority. "As a mentor I will take the time before and after a board meeting to help with preparation and have a debrief; it's probably no more than an hour's conversation each time. I expect a mentee to take it seriously and prepare questions before our conversations. Key to all of this is to have a board that sees the value of bringing someone onto the board who may need a little mentoring in the beginning."

A common complaint by new directors is being confounded by the use of arcane, technical, sector-specific language. One FTSE 100 board recognizes the problem and includes a dictionary of acronyms in its reading material. "It can take time to absorb everything one needs to know about a business," says one director, "but the more you understand, the easier it becomes and the quicker you can get through the board papers for each meeting."

In addition to the initial induction program, many boards offer "top-up" training or attendance at seminars run by law or accountancy firms. Corporate secretaries are generally good at including in board packs information on changes to legislation, accounting rules and governance codes.

Committee work is an integral part of joining a board, and first-time directors tend not to be treated differently from other directors in this respect. However, having some breathing space before becoming immersed in a committee is helpful. Some boards let new directors attend different committees before deciding which ones they want to join; others appoint new directors to a committee straight away. Active or former finance executives, for example, usually join the audit committee immediately.

How board evaluation can help

The status of board evaluation varies a great deal in different parts of the world, but where it exists, an evaluation can provide a useful forum for airing concerns and be a catalyst for improvements that will benefit the first-time director. It may bring out into the open issues that adversely affect board effectiveness, such as the board culture, how directors work together as a team, and problems with communication. It may help to identify training and development needs and lead to improved onboarding for the next generation of directors.

The board evaluation process provides the recently appointed director with an opportunity to address issues that are affecting his or her ability to contribute fully. By the same token, companies without a regular formal board evaluation do not have a systematic way of ensuring that directors succeed or flagging those who may be failing. One director commented that the board evaluation "made me think in a lot of detail about my specific role, what value I could bring and how effectively we as a board were interacting with the executive team."

About the authors

Tessa Bamford, London, is a member of the firm's Board Services Practice. Julie Hembrock Daum, New York, co-leads the North American Board & CEO Practice. Malini Vaidya, Singapore, leads the global Consumer Packaged Goods & Durables Practice and the Consumer Practice for Asia Pacific. Hélène Vareille, Paris, is a member of the Board Services Practice.