THE BENEFITS OF BOARD SERVICE

Members of the CEO's senior team gain important developmental benefits when they serve on an external board of directors, including valuable experience and board-level perspective they can apply in their current role and that can position them for future leadership positions.

Spencer Stuart consultants spoke with board directors and senior executives in Canada about the developmental value of board experience and the practices that ensure that the individual leader and the organization achieve the intended rewards. These include affiliation with highly respected companies and experienced directors, exposure to other governance processes and the opportunity to gain new ideas valuable to the executive's own company.

THE VALUE OF BOARD SERVICE

Outside board service is a broadening experience for members of the CEO's team, providing exposure to different leadership styles, corporate cultures and business models. It expands these leaders' perspective, training them to see issues from a board-level point of view. Board assignments also extend individuals' professional and personal networks, introducing them to senior executives from other industries, some of whom may serve as sounding boards and even mentors.

Joseph M. Natale, a director of Livingston International and executive vice president and president of consumer solutions for Telus Corporation, a customs and compliance services firm, describes outside board service as a sort of laboratory, where executives can test and refine their leadership and communication skills. "Stepping away from your day-to-day activities for board meetings forces you to take a higher-level, more macro perspective. There's also a lot of value in having to articulate ideas and solutions to problems to a varied audience. It readily tests your logic and convictions about management policies. Convincing other senior leaders of your views is a great test. They are not part of your corporate-think and come from other industries, cultures and sometimes generations. It helps provide tremendous clarity," said Natale. He said he draws on the insights he gains into the success and challenges of other companies and other leaders to evaluate his own management style and leadership traits. "By keeping an open and self-assessing mind, you create a real laboratory to advance your capabilities."

Executives also find that outside board service improves their ability to interact with and effectively present to their own boards by deepening their knowledge of governance and enhancing their understanding of board dynamics and director expectations. In short, by sitting around a board table outside of their own company, they learn how directors think and the concerns they have about key issues. "When you have only 45 minutes to make your pitch to the board, you need to make sure you are focused on the most important topics," said Leo Houle, a former chief talent officer at BCE who serves on the board of CNH Global, a leader in the agricultural and construction equipment businesses.

Businesses benefit from having executives in the top management team with board experience because they are able to view business and management issues from different perspectives and draw on knowledge gained from situations encountered through board work. Sarah E. Raiss, executive vice president of corporate services for TransCanada Pipelines Ltd. and a board director for Shoppers Drug Mart, said her boss and the TransCanada board were very supportive of her joining a large corporate board, both for the leadership development opportunity and its value to the business. She said she is able to bring to TransCanada best practices and good ideas that have been used successfully in large companies in other industries. "Since outside board service takes time away from the company, it's great that the company gets something back," said Raiss.

MORE BOARD OPPORTUNITIES FOR THE CEO'S TEAM

Ten years ago, senior leaders reporting to the CEO had few opportunities to serve on an outside public company board. Since then, several trends have converged to open the door to directors with a broader range of profiles. CEOs — traditionally the most desirable director candidates because of their leadership and management experience, big-picture view and knowledge of current business challenges — and other experienced directors are accepting fewer outside board roles than in the past. Why is this? The scope of the board's role has grown in recent years, increasing the amount of time required for board service — both during and outside of formal meetings. Similarly, the job of the CEO has become more demanding and time-consuming, causing CEOs to be more selective about their outside board commitments. For this reason, many boards are limiting their CEOs' outside board activity, citing the time demands and the potential reputational risks, and some boards even restrict the number of board assignments directors may accept. In 1999, CEOs of S&P 500 companies served on 1.6 outside boards, on average; today, the average has dropped to 0.7 outside board directorships. A similar trend is seen among Canadian CEOs.

Other statistics from Canada and the U.S. illustrate how these trends are affecting board composition. A decade ago, CEOs, COOs, chairmen, presidents and vice chairmen represented more than half (53 percent) of new independent directors on S&P 500 boards. In 2009, the proportion of new directors with these backgrounds fell for the third year in a row to 26 percent. As fewer experienced directors accept new board assignments, boards are recruiting more first-time directors. A Spencer Stuart study of 100 of the largest publicly traded Canadian companies, for example, found that 24 percent of directors recruited in 2009 were first-time directors, consistent with the previous couple of years. By comparison, between 2004 and 2006, 18 percent of new directors on average were new to corporate boards.

With experienced directors less able to (or restricted from) accepting new outside board assignments, boards have become more receptive to recruiting executives from the top management teams of leading companies, especially those with valuable operating expertise, a strategic mindset and relevant industry or functional expertise. Boards now seek directors with experience in finance, risk management, human resources and technology, for example, or look for executives with global experience. While this change has undeniably resulted in the loss of some of the leadership experience and big-picture perspective CEOs can bring, it also has infused many boards with a broader diversity of perspectives.

BEST PRACTICES FOR MAKING THE RIGHT BOARD MATCH

More CEOs and boards recognize the valuable experience senior executives can gain by serving on outside boards, and there are more opportunities for executives to join corporate boards. To ensure that these benefits are realized, boards, CEOs and senior executives should understand the potential challenges and be prepared to manage potential risks.

What are the challenges? Board service typically represents a significant time commitment because of board and committee meetings and preparation work between meetings. Serving on the board of a troubled company, or one undergoing a CEO transition, can take even more time. Corporate boards find themselves under intense scrutiny today from investors, regulators and the press, and when problems occur board directors may be held responsible. Beyond that, Marc Guay, president of PepsiCo Foods Canada, points out the potential reputational risks to a senior executive — and his or her company — of being associated with a troubled company through a board assignment. Finally, a poor match may not provide the anticipated developmental benefits.

Boards, CEOs and the senior executives pursuing outside board service should work together to ensure that external board experiences deliver the intended benefit with little disruption to the organization. Below are questions that organizations should consider to help ensure outside board assignments are successful — for the senior executive and the company.

What board service policies make sense for the organization? If they don't already have one in place, CEOs and boards are working together to determine a board service policy and framework. Policies typically address a range of issues, including: what limits, if any, should there be on the number of outside board assignments executives may accept; guidelines related to the types of companies that an executive may or may not join, including what constitutes a conflict of interest; and process issues, such as whether formal approval is required before an executive can accept a board role and who should be involved in reviewing or approving outside board invitations.

Nestlé, for example, requires executives to gain corporate approval before accepting an outside board position and generally limits executives to one outside board assignment. Nestlé also strives to avoid obvious business conflicts by prohibiting executives from serving on the boards of companies related in any way to Nestlé business units. "This is hard to do in the consumer goods space because there are so many organizations that do have a conflict with the wide range of the Nestlé businesses," said Robert G. Leonidas, president and CEO of Nestlé Canada.

Some companies are more supportive of executives joining the boards of nonprofit organizations or industry associations because they provide many of the developmental benefits of corporate board service to the individual and enhance the company's profile in certain circles that are relevant to the business, said Timothy H. Penner, president of Procter & Gamble Canada.

Who should serve on an outside board? In general, boards look for director candidates with a combination of broad business experience and specific knowledge relevant to the company, such as technical, regulatory or international expertise. The best directors have the time to commit, know the company's business well, review board materials thoroughly and participate actively in debate.

A consideration for the board and CEO is which executives are suitable for an external board assignment. Some companies may encourage certain business or geographic leaders or functional heads to pursue an outside board assignment as part of the individual's development plan, particularly executives who might be a future candidate for the CEO role.

"Experience on external boards can play a key role in the development of senior corporate executives from a wide spectrum of backgrounds and areas of specialization," said David Cheesewright, president and CEO of Walmart Canada. "Not only does it broaden the perspective of the individual beyond the borders of their own organization, it often heightens their abilities to influence, communicate and distill complexity." Guay agreed, "More important than an executive's functional role is where the individual is on his or her personal learning curve and personal development." Leonidas argues that "the busy executives are the ones best suited to handle outside board opportunities as they seem to be incredibly well organized, action-oriented and will definitely act as impact players."

Is it the right board opportunity? A potential pitfall for an executive is joining a board that is not a good fit with his or her experience and capabilities or doesn't represent a strong developmental opportunity. "A great deal of thought should be given to the type of industry, type of company and type of board role that one is looking for," said Cheesewright. "If this is not done properly, the executive can end up in a situation that is not appropriate for learning purposes and, consequently, may be a significant waste of time for the executive and the company."

The ideal match is typically with a company in a complementary industry, such as an industry experiencing similar growth patterns or addressing similar challenges, while avoiding potential conflicts of interest. Most boards and CEOs prefer that executives join the board of a similarly sized company, but executives may have to be open to serving as a director of a smaller company if they have not previously served on a board. Boards of smaller companies are more willing to recruit knowledgeable executives who are new to board service, providing the executive with an opportunity to gain valuable board experience.

Executives will want to make sure they join a high-functioning board of a well-run company. Therefore, it is important that executives fully vet board service opportunities through careful due diligence. Director candidates typically meet with the multiple members of the governance/nominating committee and the CEO and, increasingly, other senior executives such as the chief financial officer and general counsel. Director candidates should conduct extensive reviews of publicly available financial information and mine information from contacts in the industry and other trusted business contacts. Some executives are able to tap their internal legal, investor relations and public relations departments to help vet the board opportunity. Others check the company's ISS corporate governance ratings, examine its public policy positions and speak with industry and financial analysts about the company.

Another factor in considering whether a board opportunity is appropriate for an executive is the likely time commitment and how the required time commitment fits in with the executive's workload and other demands of his job. Executives will want to find out the number of board and committee meetings that are scheduled and where the meetings are held. A board requiring a significant time commitment or significant travel may create conflicts that interfere with the executive's job or make him or her less productive as a board member. One experienced board director told us that, when he is invited to join a board, he checks the prospective board's meeting schedule for potential conflicts before considering any other issues related to serving on that board.

"Board service broadens an individual's perspective and gives them better insight into other businesses, industries and challenges. The pitfall is that boards can eat up a lot of time if you don't get yourself on the right board. This time trap is true whether you're involved with a board for business, professional or personal reasons," said Penner. "Know what type of board you're getting involved with, know the challenges that you are there to address and get a good understanding of what the time commitments are."

An external board assignment can provide many important developmental benefits for members of the CEO's team, who gain exposure to new ideas and fresh perspectives through their work with senior leaders from other industries and functions that can be applied to their own business. To ensure that external board assignments are valuable both for the individual executive and the company, boards and CEOs should consider establishing a framework for reviewing opportunities so that executives are placed on the boards of well-run companies of a similar size and with similar strategic priorities. Boards and CEOs also may want to consider whether senior leaders who have the potential to become CEO succession candidates should be encouraged to join an outside board as part of their development.

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ABOUT SPENCER STUART

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