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## OUR BROKEN BOARD SEARCH PROCESS

*Worldwide*, corporate governance and boards have managed a flood of changing expectations very unevenly. For example, when risk governance exploded as a boardroom concern almost a decade ago, boards quickly added oversight tools to their role. But too often, this new risk management structure bogged down board decision making, and turned “risk” from an element to be weighed to a taboo to be avoided.

We see other areas where boardroom change has brought unexpected blowback. One of these has been director search and recruitment. The historic model saw insiders gaining seats on the board as a final step up the corporate ladder. Outsiders joining the boardroom elite were noted names, retired CEOs, friendly bankers and lawyers, all recruited from a cozy, who-knows-who network.

That model has taken many hits in recent years. Boards, particularly at public companies, now need to include current, targeted competence, diversity, and shareholder responsiveness. Boards also need people willing to devote more time and effort to fewer boards, and prepared for today’s liability and oversight concerns.

This all sounds good, but such factors have upturned and strained our ability to find, vet and add new board members. Selecting a director based on mutual country club membership at least allowed fast decisions. Now, deciding the talent and attributes sought in a new board member, finding that talent, getting to the “yes,” reviewing vitae, multiple interviews, and assorted legalities stretches out to months. Some boards fuss over setting the perfect qualifications so much that they never find the perfect candidate.

The face-to-face aspects of director search are still in the learning stage too. Boards, headhunting firms, and candidates themselves are working to reinvent an interview and vetting process that differs in major ways from executive job search. Asking (and answering) the wrong questions in the wrong way still seems to be the rule.

Finally, one hoped for result of more professional board recruiting was board refreshment - more turnover, younger, more diverse directors, and fresher skills. The opposite has happened. A Bloomberg study finds the average S&P 500 director age is now 63 -- 2 years older than a decade ago, and average tenure is over 11 years.

The articles in this month’s issue should help improve your board recruiting process -- I hope so, because director search can sure use the help.

-- **RDW**

## SHAKE UP YOUR BOARD TALENT SEARCH - 6 TIPS

As noted above, the process of turning director recruitment into a professionalized process has proceeded in fits and starts (primarily fits). Too much of this evolution has consisted not in rethinking how we seek and evaluate board nominees, but in polishing up the old “friend of a friend” models to make them seem more businesslike.

Maybe it’s time to bring some fresh thinking to the whole idea of how we find, judge and select board candidates, suggests Jim Zuehlke, who heads [\*Cardinal Board Services\*](#), a firm that helps boards find talent and

reshape themselves. I spoke with Zuehlke about some specific recommendations he gives boards stuck in the process of rethinking their talent needs, and he offers 6 specific suggestions:

- *Don't nominate someone you know.* Stepping back and objectively looking at a larger field is Step One in turning board search into more of an objective HR process, and less like tapping someone for a college fraternity. If a CEO or board chair pushes back on the idea of looking outside their circle of friends, "their first comment is usually 'but I know I can trust this person,'" Zuehlke observes. But "trust" can obscure a number of drawbacks, including independence, current knowledge, and weak qualifications. "Every time a client [board] has raised this, and we find them a better candidate, the trust argument has gone away." Often, seeking a candidate who brings familiarity is a coping mechanism for an unspoken fear that highly qualified, name board candidates will say no (which also usually proves unfounded). Looking beyond those you already know in a board search forces you outside your comfort zone.

- *Find someone willing to debate.* Say what? Aren't boards based on collegiality, working with folks you're familiar with, and so on? "Debate is important if you want real expertise," says Zuehlke. This doesn't mean naming a crank who dominates conversation. Rather, it entails finding someone with the experience and diplomacy to intelligently push back and ask questions. This is also why a good, thorough vetting process by multiple members of the board and management is so important -- you won't uncover these talents in a 15-minute one-time chat with the board chair.

- *Seek directors who fill more than one need.* You want someone with finance, legal, operations, tech, etc. expertise for your open board seat. Good -- but don't select someone *solely* for that talent. Today's board demands, especially for a public or fast-growing company, are too varied and fast changing to settle for a director who only brings one skill. If someone is exclusively a tech expert, for example, Zuehlke says that "once they're delivered that skill, their value goes away." Why not someone with savvy in tech *and* new product rollouts *and* complex production chains? Finding an expert in one area is easy -- set stretch goals of finding a candidate who fills several blanks in your boardroom gap analysis.

- *Experience at a company with at least double your current revenue.* Or 3X... or more. Aim high -- find a board candidate with expertise your company can grow into, because he or she will prove a valuable mentor in pursuing that growth. This status is even more helpful if the experience is recent, with the director's active involvement at the executive level -- he or she has walked in your shoes, and knows the trail.

- *Embrace diversity.* This means more than the current concern about not having a board of 12 white males all named George. A mix of race and gender matter, but also career paths, age, company backgrounds, nationalities... anything and everything that adds spice to the boardroom mix. This relates to the above point of finding board talent that fills more than one portfolio, but builds on it. Aside from tapping this board variety, you'll find their skills and temperaments mashing up in unforeseen, beneficial ways. Knowledge of a new production technique and experience in an overseas market can chain react to suggest a new product strategy that no one else considered.

- Zuehlke adds a final boardroom skill for all directors that he finds too often missing. "Every single board member, no matter their background, should have the ability to *quickly* read and digest financial statements. It's surprising how many people are on boards who can't do a quick read of the financials."

## **WATCH FOR THESE HEADACHES WITH BOARD SEARCH FIRMS**

As the above article notes, boards need to do a better job of seeking new boardroom talent. But the failure of board recruiting to catch up with today's needs is not entirely your fault. The various counsel and service providers you depend on to aid in the process too often are dropping the ball. At the center of this breakdown are talent "headhunting" providers. Shaped to help matchmake companies in need of top talent with skilled execs, the search firm infrastructure is ill suited to growing demands that it find good board members.

I spoke with Melissa Henderson, founder of [\*Summit Executive Resources\*](#) on this problem. Not only does Henderson's firm specialize in board search, it acts as an agent for executives seeking board opportunities. What's her take on the failures of headhunting firms when it comes to director search?

- *The wrong incentives.* As I've written before, search firms earn their big money on finding big exec talent -- typically a percentage of first-year salary. Board searches are a low-profit loss leader done to keep the clients happy. The end result -- little effort, and that usually pushed off to junior associates at the search firm, who are overstretched and unable to engage on a board's real talent needs. (If engaging your regular search firm on a board assignment, your vetting shouldn't start with the talent, but with the talent *seekers*. Find out who at the

firm will actually handle the search legwork, the depth of their contacts, and whether they actually do some digging on the specifics you seek).

■ *Weak talent profiling.* The headhunter handling your board search can waste both time and money through this fumble, but the problem springs from both sides of the equation. Talent profile failures show up at the extremes. The board may carefully parse a profile seeking someone with P&L background in an industry at several levels, current CEO status, and proven capability in several other demand areas. Also, they want a female. Sounds great, but, as with most ideals, this ideal candidate may exist only on the paper of your “wish list.” At the other end of the spectrum, you may give the search firm only vague ideas, or focus on one talent and exclude those related to it. Henderson gives the example of “a multi-billion dollar defense contractor. Their board may say it wants a [retired] flag officer, but maybe what they *really* need is a candidate with tech expertise.” (*Advice to boards* - draw up a list of board candidate qualities, and then divide them into “musts” and “wants.” Be tough with yourself on splitting these qualities -- and be willing to listen to good outside counsel).

■ *Indefinite searches.* An exec search firm has little incentive to tell you “we can’t find such a candidate,” or “your candidate doesn’t exist.” Particularly if a search is paid as an open-ended effort, they have every reason to keep looking (or saying they are) forever. On the board end, convening, interviewing and juggling schedules takes director time and effort, and it’s tempting to push off the process. Set a deadline, pay for performance... and realize that assuring you have a full portfolio of board talent in place is among your fiduciary duties.

## **LIVE FROM NEW YORK - 4 NEW “BOARD WANNABE” TIPS**

Last month, I conducted a great “board wannabe” program in New York for the folks at [GLG](#), the big business intelligence firm (it was also our wedding anniversary trip and a chance to finally eat at [Katz’s](#) deli, but that’s another story). We had more attendees than at our September GLG session, and plenty of good idea sharing for wannabes at the EVP and SVP level. Here are some of the latest tips from here, there, and everywhere:

■ After 20-odd years of a rising corporate career, your resume has seen a long-term evolution. Early on, there frankly wasn’t much to talk about, so you tended to go into more detail on items that have since been trimmed to make way for later achievements. But when it comes time to spin off a dedicated board resume, it can be wise to dig back in your files and retrieve those faded drafts of your earlier vitae. Maybe you were a minion on a startup strategy committee back in the day, put in time on a non-profit board right out of school, or crafted some key presentations to the board as a junior staffer. These tidbits have since been relegated to the cutting room floor -- but adding them back to your new board-specific resume is a great idea. Start digging!

■ Many of our readers have expertise in marketing -- so why aren’t you bringing more of that savvy to marketing *yourself* as a board candidate? A search firm pro tells me “You need to get a clear value proposition on yourself. I asked a client seeking a board seat what she felt her greatest board value was, and she said ‘diversity.’ I told her to start over, and contemplate what *else* she could bring, to what segment of the board, and then to brand it.” Try this -- sit down with a legal pad and fill it with bullet points on *specific* assets you can bring to a board. Don’t stop until you fill a page.

■ You likely have a good network of people that can help you in getting your foot into a boardroom door. Good - but now it’s time to expand that network into board-specific directions. Keep track of what’s happening in your target sector when it comes to companies divesting, spinning off, merging, acquiring and restructuring (or rumors thereof). These are the companies most likely to be shaking up their boards. Who do you know at their executive VP, general counsel, COO and current board level? Who *could* you get to know? This should push you to pick a few target companies for your onboarding efforts (always more effective than a scattershot approach).

■ Once the wannabe receives some interest for a potential board slot, the next step in interviewing with members of the board and management. This is another area where the skills you learned in career development may not serve so well when it comes to the board hunt. I spoke with Kim Van Der Zon, who manages the global board practice at Egon Zehnder, for her thoughts. “Make sure you understand the role of a board versus that of management. Sometimes, when I ask someone what they’d like to do with a board opportunity, it’s clear they’re treating it like a *job* opportunity.” At the interview stage, this entails not just knowing a lot about the company, but also its current board and governance, strategic issues facing the board, and how you could deliver value at the committee level. (As an aside, I asked an attendee at our GLG program, a very savvy corporate VP, to try one of our exercises -- give me an impromptu, 30-second elevator speech one why he should be on a board. He

delivered an excellent, quick pitch -- on why he would make a *good executive hire* -- not the same thing).

## **YOUR BOARD'S ROLE IN HIRING THE CFO**

In principle, at least, the board's audit committee has always been integral to the company's audit and control structure. We've all seen the corporate org charts with arrows zipping back and forth between the audit committee, the CFO, and the outside audit firm. But as the board's role in compliance and assuring the integrity of financials has grown teeth, the relationships have grown much more workaday and interdependent.

One aspect of this -- the board's relationship with the CFO has definitely grown more intimate and serious. Part of this has been tighter regulatory and legal demands for strong financial controls, but the CFO's increasing status as a CEO contender gives the job even greater boardroom attention (this could be one reason CFO searches have become more grueling today, as the *Wall Street Journal* [reported](#) last month).

The board, and particularly the audit committee and its chair, are now more hands' on in assuring that good CFO talent is in place. What best practices are emerging?

- While audit committees are definitely more active in CEO selection today, the terms and depth of that involvement vary greatly. "It's hard to understand why the committee wouldn't play some role," says Dennis Whalen, leader of KPMG's Board Leadership Center. (formerly their Audit Committee Institute). But there are different definitions of this "role." Joel von Ranson, Financial Officer practice leader for Spencer Stuart, typically sees "the audit committee chair meeting finalist candidates, but sometimes they also send suggestions, asking the CEO to check out so-and-so." Otherwise, he finds, "the committee is not very active in recommending candidates... they seem to feel they should let the CEO manage the search."

- Audit committee involvement at the CFO search phase may have already missed the boat, experts suggest -- assuring a *talent pipeline* for the process is more important. "Unfortunately, we're not seeing much [board] involvement in CFO succession planning," notes Whalen. Research from KPMG found 70 percent of companies have *no* formal CFO succession process at work. But "CFO succession is a more prominent topic in boardrooms now," adds von Ranson. *A coming trend* -- pressure on boards to disclose a CFO succession plan in the way they're now expected to disclose CEO succession strategies.

- So your board is now involved in the CFO candidate vetting process. But what sort of questions should you ask? "How have you handled difficult situations in the past, or when you've had a different view from that of the CEO?" suggests Whalen. "I see the committee confirming that the candidate has technical finance skills across the accounting field, and knows the role of controls and risk management," adds von Ranson. Von Ranson also sees less demand that the CFO candidate hold CPA status than a few years ago, but stronger demand for skill in "investor relations and capital allocation, and financial and data analytics, especially at private equity-back companies." Finally, the audit chair should not be afraid to ask how the CFO prospect has (or would) handle situations where he or she disagrees with the CEO -- and whether the board will learn of it.

- In most cases, the audit committee doesn't get into vetting CFO candidates until final contenders (or even single candidate) stage. Does the AC ever exercise a veto at that point? Rarely, but it does happen, say the experts. "It can then get sticky" recalls Whalen. Good communication and board involvement earlier in the process can head off such tough situation.

- What to ask in the CFO interview? Here are some good [sample question](#) areas.

## **Q&A: When the CEO Wants a Boardroom "Pet Rock"**

*Q: "I'm an associate with a national executive search firm. One of my clients is a large, closely-held logistics company. After some recent restructuring, they're adding to their board, and asked me if I would help with a director search. I've discussed the talent they're seeking with the board chair, the nominating committee chair and management.*

*The knowledge and experience outlines are fairly well defined, but the board members also made clear that they want a candidate who can ask tough questions and is independent minded. Shortly after this, though, I received a call from the CEO, our long-time contact on executive searches for the company. He gently raised two points. First, why would he want someone on "his" board who asks tough questions? Second, he subtly noted that his company is a regular client of ours for far more profitable executive search engagements. How should I ethically -- but practically -- proceed?"*

**A:** You're not alone in this boardsmanship quandary. CEOs at closely held and family firms, founders, and

leaders of companies facing stress (2 out of 3 for your case) are often uneasy in their roles, used to calling the shots, and not happy about gaining board members who may push back. Melissa Henderson, of Summit Executive Resources (see the article above), notes that “CEOs who know they are not doing a great job and are afraid of being put to the test are afraid of tough questions.” The fact that he’s obviously done an end run around the current board to pressure you for “pet rock” board prospects further hints at contempt for strong governance.

The noble thing for you to do would be to contact the board nominating committee chair and discuss the CEO’s call. Few of us are up to quite that level of nobility (and it’s likely your acquaintance with the committee chair is limited). But sorting through your contacts seeking cluelessness would likely make it hard to sleep at night.

There is another approach, though. Duly nod about what the CEO has said -- but use that as a spur to find even *better* candidates. Seek not just the skills requested, but diplomacy, good boardroom seasoning, and evidence of integrity in the face of pressure to compromise. Better still, work to find a board candidate whose vitae, company size and achievements are greater than this off-the-radar, closely held firm expects in a board candidate. Think of someone with background that will wow the board, plus achievement so strong the CEO will have to listen when he or she raises questions. Yes, this will require more digging among your headhunting contacts. But the payoff will be not only retaining your integrity, but delivering a win/win/win all around.

### ***Ralph Ward’s “Boardroom Masterclass” update:***

The [Boardroom Masterclass](#) is headed to Dubai and Antigua in the spring, with more in the works for Asia and India.



**ALSO:** My “How to Get On a Board (And What to Expect When You Get There)” program through [GLG Institute](#) in New York on February 17 was a great success!

**ALSOALSO:** I’ve rolled out the new [Boardroom INSIDER article reprint service](#). Over the years, I’ve produced hundreds of evergreen, boardroom “best practice” tips that you can now easily search and download online. [Write me](#) for details and a free tryout!

#### ***COMING IN BOARDROOM INSIDER --***

- *AN UPDATE ON THE “CHIEF GOVERNANCE OFFICER” ROLE*
- *TRENDS TO KNOW ON BOARD QUESTIONNAIRES*
- *BOARD PAY TRENDS - AN OVERVIEW*

**RALPH WARD’S BOARDROOM INSIDER** is published monthly for directors, CEOs, those who work with corporate and nonprofit boards (corporate secretaries, corporate counsel, support staff, and consultants), and those who are board prospects.

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