

Effective Director Recruitment



EFFECTIVE DIRECTOR RECRUITMENT

A strong board of directors is crucial to the success of any company. Board members provide guidance to private, public, and non-profit companies of all sizes on a host of issues. These issues may include raising new financing, plotting strategic growth, and increasing profitability. The board also maintains standards of accountability for the company's employees, officers, and directors. Recruiting and hiring a strong board of directors becomes a significant task in light of these responsibilities. It is a difficult process for all companies no matter the size or character of the organization.

At Foley's sixth annual National Directors Institute on March 8, 2007 in Chicago, "Effective Director Recruitment" was a featured breakout session topic. Several panelists provided their insight on the methods to recruit a strong and knowledgeable board of directors. The panel discussion was led by Martin Traber, a partner at Foley & Lardner, along with Warren Batts, adjunct professor at the Graduate School of Business of the University of Chicago and director of Methode Electronics, Inc.; Sylvia Groves, manager and assistant secretary of Nexen Inc.; Charles King, managing director of global board services of Korn/Ferry International; Thomas Kissinger, vice president, general counsel, and secretary of The Marcus Corporation; and Christine Marx, general counsel and corporate secretary of The St. Joe Company.

Matching Company Needs with Candidate Experience

The most important step in recruiting a director for a company's board is defining exactly what type of candidate is preferred. Every company requires different types of directors depending upon the nature of the business involved, the current make-up of the board, and what contributions the company would like to add. In general, a successful director would complement, rather than replicate, the existing skills represented on the board.

According to Charles King, the first thing that Korn/Ferry, a professional search firm, does with every client is evaluate the existing board and create a skills matrix. Each current board member fills out a self-evaluation with respect to his or her own skills and experience. This allows the firm to gain a better understanding of the strengths and weaknesses of the current board. The self-evaluation measures a directors skills in various areas including financial acumen, marketing expertise, strategic insight, operations management, and diversity. "Essentially what we do is list all the things that the company might want to have in terms of skill sets. Operations experience, compensation expertise, public board governance, regulatory, and a host of other things that may or may not be appropriate for your particular situation." Mr. King noted that it becomes apparent where the obvious holes are in terms of missing skill sets. "If you have a finance expert on your board that is retiring-you know to get another one. But sometimes it's not quite so simple."

The second phase of the evaluation involves a skills matrix that charts out the experience of the board. Each parameter is measured by the individual director using a sliding scale. Higher scores indicate high levels of proficiency already present on the board. Lower scores identify areas in which the board may wish to obtain additional expertise via recruitment. "The key is to figure out exactly what it is you're looking for and then create a set of specifications to satisfy that need. The tighter the spec, the more successful your



search will be.” Companies have approached Mr. King with exceptionally tough requests. One *Fortune* 500 company required a new director from a diverse racial background, with a PhD in engineering, business experience in the oil and gas industry, with past experience serving on public boards. Although the specifications were very limiting it allowed Mr. King to approach the handful of available candidates who fit the description perfectly. “Make the spec as tight as you possibly can and that way whether you’re recruiting as a board or engaging a consultant to do the work, you can be most effective.”

Sources of Candidates

The second key step to a successful director search involves locating potential candidates from the appropriate sources. There are two basic types of searches used to locate candidates. One is typically referred to as the “Rolodex method”. This type of search is generally more informal and involves current board members and officers of the company using their own personal contacts to locate new talent for the board. The distinctive advantage of the Rolodex method is that company officials can fill open board seats with individuals that are familiar to them. As a result, the new directors have a better working relationship with the current board compared to directors chosen from outside the company’s pool of contacts. For example, CEOs and officers of prominent companies who have recently retired because of a buyout make excellent candidates. In general, they are not interested in locating a full-time managerial position but may enjoy the chance to stay involved in a business through board membership.

There are disadvantages to the Rolodex method. The depth and range of a search may be limited by only focusing on the candidates known to the company. According to the panel members, there are a number of qualified candidates outside a company’s immediate contact list. In fact, it is usually impractical to expect members of any “most powerful” list to join a new board. Candidates with such high visibility are often unavailable and occupied with several other board memberships. Unless the company is a member of the *Fortune* 100 it may be unrealistic to expect these high profile candidates to accept the responsibility of another board membership. Christine Marx reminded attendees that the Rolodex method is very cumbersome and time consuming. “It is an incredible time commitment for the members of the Nominating Committee because they have to do a lot of legwork to get background information.” Ms. Marx also noted that a company could face office politics if different factions of the board support their own colleagues for the position. Moreover, the Rolodex method may not be as effective to recruit financial or accounting experts to the board. These candidates are hard to find in the post Sarbanes-Oxley era since many companies are trying to recruit these experts to their board.

A company can extend the breadth and depth of their recruiting by outsourcing their search to an executive recruiting firm. After utilizing the self-evaluation forms, skills matrix, and other research tools, an executive recruiting firm can identify candidates that match the ideal description. Normally, the initial list would include approximately 25 candidates and then the company would select the top ten individuals from this list. After the list is complete, the executive recruiting firm would then approach the selected candidates. Narrowing the search early on decreases the risk of alienating candidates who were interested in the position but not selected. Rejected candidates may eventually fill an open board seat in the future.



A disadvantage of selecting a director through an executive recruiting firm involves the level of familiarity with the new board member. Usually the new director is selected from outside the pool of candidates known to the company. Current officers and directors may not develop a successful working relationship with the new director despite how great the fit appeared on paper. Ms. Marx stated that her company debated at length whether to use a search firm or do the recruiting themselves. “We were very concerned with the chemistry of our board, with collegiality, and there was a fear that the interview process was not real.” She went on to state that adding just one new director can affect the chemistry of the entire board. Every board member should have a good rapport with the senior officers of the company as well as other board members. One of the attendees mentioned that her company strictly adheres to the Rolodex method since she works for a relatively small family owned business that operates in a specific fashion. Notwithstanding the advantages of using an executive recruiting firm, the attendee has found the Rolodex method to be more appropriate for her specific company.

Several other issues affect sources for director recruitment, including the need for companies to be extremely transparent throughout the recruiting process. Companies should make all senior officers and directors available to the candidate if he or she wishes to discuss any aspect of the business or the board member’s role. Otherwise, any signs of holding back information may discourage the candidate from accepting the position. The panel also recommended attendees be decisive once the final candidate is chosen. More than likely, other companies are also recommending the candidate for their board. Warren Batts stated that his company has used potential candidates as corporate advisors to the board well before board seats become available. The board can track a candidate’s personality, expertise, and understanding of the business before the issue of director recruitment arises. The panel also advised attendees to consider candidates from atypical backgrounds. Successful directors have been found within government offices, the military, and academia.

Impediments to Recruitment

Despite all the hard work and research to evaluate candidates and locate the perfect director there are several impediments that influence individuals to pass on board membership. The most important obstacle to director recruitment is the escalating time commitment expected of the board. Candidates who decline an offer for a board seat usually do so because they cannot sacrifice the time required to be a successful director. Candidates should be able to control their schedule to a certain degree in order to perform their duties as a director and meet with the board several times a year. It is essential that companies notify the candidate of upcoming board and committee meetings even a year in advance. The issue then becomes the special board committees, such as the audit or compensation committee, with their increased time requirements for board members. A board of directors is expected to spend 225 hours per year per board on average. Candidates are fearful that they will not be able to spare that time while also maintaining another job or other board memberships.

The financial risks related to board membership are another impediment to recruitment. Many candidates are concerned that the director and officer liability insurance provided by the company will not protect them in the event of litigation against the board of directors.



To combat this problem and other obstacles to recruitment, companies can put together a dossier with the make-up of the board, board policies, and the risks inherent to the company and the industry, among other relevant information. It is better to be transparent, provide detailed information and overstate the risks up front with any potential candidate, so the candidate is more comfortable in accepting the position.

Compensation is usually not a reason to decline board membership if the compensation package is fair and competitive. According to the panel, the compensation package does not have to be in the 90th percentile in order to convince candidates to accept the board position. In fact, if a candidate declines the position because of compensation, then the person was not a good fit for your organization or board membership in the first place. Good board members should not be worried about their pay if it is reasonably structured and competitive with the market. The compensation trends within the market for board members seem to be moving away from stock options and more to set salaries.

For More Information

For more information on this session or the sixth annual National Directors Institute, visit Foley.com/ndi2007 or contact the panelists directly.

Warren Batts
Methode Electronics, Inc.
wbatts@aol.com

Sylvia Groves
Nexen Inc.
sylvia_groves@nexeninc.com

Charles King
Korn/Ferry International
charles.king@kornferry.com

Thomas Kissinger
The Marcus Corporation
tomkissinger@marcuscorp.com

Christine Marx
The St. Joe Company
cmarx@joe.com

Martin Traber
Foley & Lardner LLP
mtraber@foley.com



2007 National Directors Institute Sponsors

Foley proudly recognizes the 2007 National Directors Institute sponsors: [UBS](#), [Aon](#), [Korn/Ferry International](#), [Deloitte](#), [RR Donnelley](#), [D. F. King](#), [Ashton Partners](#), Boardroom Bound, Chicagoland Chamber of Commerce, NASDAQ, NYSE and Springboard Enterprises. The support we receive from our sponsors is crucial to the development of the program and we thank them for their efforts in once again making NDI a huge success.

Save the date! The 7th Annual National Directors Institute will be held on March 6, 2008 in Chicago. Learn more at Foley.com/ndi.