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**POINT of VIEW**

A SPECIAL ISSUE FOCUSING ON TODAY'S BOARD & CEO AGENDA

# Why they still do it

## Directors' motivations for joining a board

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Despite the occasional anecdote about a director vowing never to join another public company board, experienced directors are not fleeing boards in droves. Yet, one could be forgiven for assuming that at least a few directors are asking if board service is still worth it, in light of the sky-high expectations on them, the significantly greater time demand and the challenge of keeping up with the dizzying pace of business.

Several forces have converged to make board service more complex and challenging today:

**New regulatory requirements.** The global financial crisis and isolated business scandals have renewed focus on board governance and, in some places, led to new governance rules and requirements. Regulations differ by country and region, but many of the new requirements center on a few areas: board composition, director qualifications, executive compensation and risk management. While it may be too soon to know the impact of regulatory changes on board composition and operations, some directors fear that the balance of the new governance rules “is tipping from substance to form, and regulation has now tipped to incompetent intrusion.”

**Shareholder activism.** Investors are pushing for more influence on key issues, including board composition and executive compensation — and, occasionally, gaining new tools to exert their views, such as the new proxy access provision in the U.S. While many directors welcome the increased dialogue with investors, there are frustrations: the check-the-box mentality of some institutional shareholders, the vast influence of ratings agencies and the pressure for immediate and unsustainable results.

**A higher degree of scrutiny.** Ten years ago, the chances of a board of directors becoming front-page news were slim. Today, when a business faces a crisis or erosion in performance, the board's action — or inaction — is examined nearly as closely as the CEO's. As one director observed: "There's no hiding anymore."

**A growing agenda.** Boards are spending more time discussing issues such as risk, executive compensation, the environment and corporate responsibility, as directors take a more expansive view of their responsibilities. The financial crisis and economic downturn elevated the importance of risk and remuneration in the boardroom, but directors also feel pressure to take on issues such as the environment and corporate ethics in response to their growing visibility with investors and society as a whole.

**Changing board dynamics.** Finally, boards themselves have changed. As a result of increased specialization, the growth in the number of first-time directors and greater gender, ethnic and geographic diversity, directors find fewer people "just like me" seated around the board table. Led by the chairman or lead director, the board has to create an environment that harnesses these different perspectives. And, with so many responsibilities, directors are holding each other to higher standards. "Accountability is far greater today, and that has real implications for the involvement of board members. A board member who doesn't work is immediately detected, as well as an incompetent one, which was not always the case before. Board meetings are no longer a club meeting," said Christine Morin-Postel, currently a board director of British American Tobacco, Exor and Royal Dutch Shell.

## WHAT DO DIRECTORS WANT? PRIORITIES FOR SERVING ON THE RIGHT BOARD

The current environment creates some real challenges for boards that need to recruit directors. Because of the scrutiny on them, boards must be very thoughtful about defining the necessary skill-sets for new board candidates and recruit directors who have those skills and a reputation for working hard, contributing to board discussions and respecting management and their colleagues on the board.

As important as it is for boards to carefully define the capabilities and qualities of the ideal board candidate, boards also must remember that director candidates weigh a variety of professional and personal priorities when considering an invitation to join a board. Understanding what's important to director candidates will be increasingly critical to recruiting new board members.

**We spoke with many experienced chairmen and board directors, including the following, about a range of topics related to joining boards and getting the most from the director experience.**

**Daniel Camus**, executive board member of Electricité de France and a board director of MorphoSys and Valeo

**Jean-Martin Folz**, retired CEO of Peugeot and a board director of Alstom, Axa, Carrefour and Société Générale

**Chris Gibson-Smith**, chairman of the London Stock Exchange and The British Land Company

**Randall J. Hogan**, chairman and CEO of Pentair and a board director of Covidien

**Louis J. Lavigne Jr.**, chairman of Accuray and board director of Allergan, BMC Software and SafeNet

**Christine Morin-Postel**, board director of British American Tobacco, Exor and Royal Dutch Shell

**Edward A. Mueller**, CEO of Qwest Communications and a board director for The Clorox Company and McKesson Corporation

**Denis Ranque**, chairman of Technicolor and a board director of Compagnie de Saint-Gobain

**Philip Rogerson**, nonexecutive chairman of Aggreko, Bunzl and Carillion

**John Wiehoff**, chairman and CEO of C. H. Robinson and a board director of Donaldson Company and Polaris Industries

**Anthony Wyand**, vice chairman of Société Générale and board director of UniCredit

## So, why do directors join a board?

Directors tell us that they find great professional satisfaction from contributing to the performance of a company and personal satisfaction from challenging themselves in a new situation.

“Certainly, part of the reward is yourself versus all the challenges we’ve been talking about. Can you do this? Can you be effective in a new context?” said Chris Gibson-Smith, chairman of the London Stock Exchange. “Another reward is the opportunity to learn. If we think of ourselves in medieval terms, we go on an apprenticeship and eventually become a master craftsman, but the journey never stops. That’s rewarding.”

For John Wiehoff, chairman and CEO of C. H. Robinson and a director on the Donaldson and Polaris boards, an important reward for serving on an outside board has been the insight he has gained to improve how he works with his own board. “Board service has taught me to simplify and prioritize with my board. I’ve learned as a director that it’s very challenging to stay on top of things in between meetings. As a CEO, I’ve had to learn that even though my directors are very smart, committed people, they can’t be expected to remember the details of my business.”

While experienced executives continue to see great value in serving on a corporate board, they want to serve on the right board. In general, directors want to join boards where they will have the opportunity to learn, where their talents and expertise will be valuable and where they can make a difference to the company. They want to be a part of a high-performing team and respect the people they are working with on the board and in management.

We hear from director candidates that the intangible rewards of board service — affiliation with highly respected companies and other directors, exposure to other governance processes and the opportunity to gain new ideas valuable to their own company — continue to be important factors in the decision to join a board. For most director candidates, choosing the right board involves a formula with multiple factors. Below are a few of the most common:

**Industry and company size.** For many directors, a company’s industry sector is one of the most important considerations. Is the industry interesting to them? What they can learn from it? Do they have experience in the industry? Director candidates also may look at the regulatory framework governing the industry or the issues the industry faces. For many director candidates, especially those who are active executives, the ideal match is with a company in a complementary industry, such as an industry experiencing similar growth patterns or addressing similar challenges.

## ? How do you evaluate new board opportunities?

“The first thing I look at is the sector. Is it a sector I want to work in or have experience in? Is the company an interesting one that has interesting challenges, whether that is growth or recovery or something else? Do I know the people and am I prepared to work with those people?”

**Philip Rogerson**

“The criteria I use are the same as when I first became a board director:

Will I gain experience to help me as a new CEO? It has been extremely helpful to see things from the other side.

Who is already on the board and will I learn from them?

Can I get excited about the company’s strategy? Do they have similar business challenges?

Is there personal chemistry with the other directors and the CEO?”

**John Wiehoff**

“The key factors for me are the qualities of the chairman and the CEO — I need to respect them — the role I am asked to play and in which committee they want me to sit; the curiosity and interest I have for the industry with a paradox to solve. I may have more interest for new industries where I am less experienced.”

**Jean-Martin Folz**

“I look for the opportunity to leverage my personal experience in other industries and get some ‘fresh air’ outside my own industry. This allows me to learn about the dynamics of other industries with no preconceptions and confront ideas with other executives at a high level. When recruiting board directors, I see candidates today being more concerned with having a real contribution to strategy and less with the prestige of being a director.”

**Daniel Camus**

Company size also can be a consideration. Depending on a director's interests, he or she may prefer a board assignment with a large company for the exposure to world-class executives and directors and the opportunity to tackle complex global issues, or a small company assignment for the cutting-edge technology or ability to have a larger-sized impact. Some director candidates view their board work in terms of building a portfolio of assignments with different sized companies and in different industries.

**The fit with the CEO and chairman.** Comfort and compatibility with the CEO and the chairman also are very important considerations for most director candidates. Experienced directors advise director candidates against joining a board where they have questions about the performance or the ability of the CEO, or if they get the sense that he or she doesn't value the board and its role in the company. Said one director: "Unless it's a role that requires the removal of management, I wouldn't work in a company where I don't think I'll get on with the chief executive."

**The quality of the governance.** Directors want to join a well-functioning board that plays the appropriate role in the major strategic decisions of the company and to be comfortable with the company's business and governance practices. Directors look at the quality of the governance processes, the independence of the board and the management's attitude toward the board.

**The challenge.** Does the company have stimulating challenges related to growth, recovery or something else? Some directors tell us they are excited by opportunities to participate in a turnaround or the rebuilding of a company that is struggling or to be a part of a board that has to select the next CEO. As one director explained, "It is more exciting when the company faces problems, because it is then that the board is the most useful."

**The strength of the company.** While some directors relish the idea of helping to turn a company around, others are drawn to top-tier organizations that have healthy financials and an excellent reputation — those that seem unlikely to fall victim to a major scandal or business disruption. These directors look closely at the financial strength of the company and its competitive position in the marketplace, and want to be comfortable being affiliated with its reputation and values. Some director candidates report that they conduct more rigorous due diligence than in the past about the company's financials, reputation and governance through extensive interviews with current directors and senior executives and careful reviews of publicly available financial information. They also mine information from contacts in the industry and other trusted business sources, check the company's corporate governance ratings, examine its public policy positions and speak with industry and financial analysts about the company.

"These are the criteria I used when considering an outside board:

Do I have time? Boards take more time now, and appropriately so.

Will it be stimulating? Is it something I want to put time into?

Will it help me grow in my job as a CEO and chairman?

Can I make a positive contribution to the company?

Does it have a fair degree of complexity? For instance, I wanted something larger than my own business: one that was meaningfully global.

Is there a fit with the CEO? I think the benefit to a board of having a sitting CEO as a board member is greater today due to the enormous number of changes in the business and regulatory environment. Retired CEOs can play a role too, but they're not in the same battle day to day."

**Randall Hogan**

"The best way to put it is, what can I learn and what can they learn. What can they contribute to my personal growth and what could I contribute to theirs."

**Edward Mueller**

## How do you define board chemistry?

"Good chemistry is essential. A board must have mutual trust, self-confidence and transparency. No issues should be hidden or 'coded.'"

**Tony Wyand**

"Good chemistry is a positive atmosphere, which includes the ability to express strong views in a positive way and the willingness to work together. What contributes to a board's chemistry? Diversity and complementary profiles, hard-working board members who actively participate."

**Christine Morin-Postel**

**The other board members and the chemistry between them.**

Director candidates always want to know who already serves on the board they are being asked to join. For some, the opportunity to work closely with and learn from business leaders they respect is as much a motivation for joining a board as what they can learn from the company. In addition, directors want to avoid boards that are rife with conflicts or lack the independence from the CEO to do their work. While it is impossible to know precisely how a board will behave until one starts, it helps to meet as many directors as possible and learn about them and their work styles through mutual friends and colleagues.

**The time commitment and potential scheduling conflicts.**

Serving on a board today takes much more time than in the past, directors say. The time demand is even greater for companies that are restructuring or undergoing a CEO transition. Director candidates want to be comfortable that their schedule can accommodate a new board assignment, and many directors now limit the number of public company board roles they will accept.

**IMPLICATIONS FOR DIRECTOR RECRUITING**

Recruiting new independent directors today can be difficult and time consuming. The desire for specialized expertise and increased diversity in the boardroom — and in some cases the requirement that boards become more diverse — has increased competition for some candidates. At the same time, many directors are accepting fewer board assignments than they did in the past and more companies, particularly in the U.S., have restrictions on how many additional outside board roles a director may accept. As a result, many directors are more discriminating than in the past about which boards to join.

Boards can improve the chances of attracting directors with the most relevant experience by understanding the motivations and concerns of director candidates and the company's perceived strengths and weaknesses. Here are a few lessons from the front line of director recruiting:

- > Assume that there will be good competitors for a candidate's time, whether it is another board opportunity or another interest.
- > Understand your board's "value proposition," based on where the company is strategically, the kinds of issues that come to the board, the composition of the board, the strength of the management team and even the quality of the board's new-director orientation.
- > Carefully define the expertise that is important for the board, for example, industry or functional knowledge, language ability or international business experience.

"If you get the right chemistry, you'll have a good board. It's about people looking forward to the next board meeting and feeling that they have an opportunity both to learn and to contribute, either at the board meeting or subsequently. For me, a board that works well is one in which individual executive directors feel able to pick up the telephone to nonexecutive directors who may be able to help them with a specific issue and just ask advice without feeling the need to go through the chairman or the chief executive. Once you have achieved that, you've got a board that's working, and that doesn't necessarily come terribly easily."

**Philip Rogerson**

"It is important to have chemistry in which directors vigorously interact. However, it is important that everyone comes together to adopt a point of view about the direction that the company is going to take, and that everyone gets on board with the decision and supports the decision, that it not be a divided decision. It doesn't mean consensus. It means that everybody is heard, the issue is vigorously debated, but in the end, everybody needs to come to a conclusion on the direction to be taken."

**Louis Lavigne**

"Chemistry is a matter of mutual respect, before all things. If the board members have mutual respect, then it doesn't matter how diverse they are. They've got to be able to recognize capability in the people who are not like themselves."

**Chris Gibson-Smith**

"It is a board where there is a culture of consensus and where nobody wants to impose his views and will do the best for the company interest. It includes mutual respect and the willingness to work together. Good chemistry is not a given. You have to build it."

**Denis Ranque**

- > Continuously review the board's skill-sets relative to the company's strategy and direction to ensure that the board as a whole has the knowledge, experience and skills to guide the management team as it addresses new challenges and market opportunities. The annual board self-evaluation is a natural platform for the full board to review its composition and discuss the expertise that it will need in the future.
- > Define the board's notion of chemistry and promote an environment that encourages active participation by every director and is respectful of differing views. The chairman or lead director plays an important role in creating this environment and getting contributions from everyone around the board table.
- > Make board service a rewarding experience for directors. Tap into the expertise and brain power of directors by structuring board meetings in a way that gives directors the opportunity to engage with one another, rather than having a series of presentations. CEOs gain additional benefit when they develop one-on-one relationships with individual directors.

Experienced directors want to serve on well-managed boards that make a difference in the performance of the company. They want to work with smart, engaged directors and be comfortable with the CEO's leadership capabilities and character. Finally, they want to serve on boards that allow them to learn and build new skills. When they find board opportunities that offer these professional and personal rewards, they are willing to accept a new director role — despite the pressures and demands.

#### ABOUT THE AUTHORS

Susan S. Boren is an active member of the Board Services, Life Sciences and Education, Nonprofit & Government practices. She also is a member of the Spencer Stuart board. Will Dawkins leads the Board Services Practice in the U.K. Phil D. Johnston is a member of the Board Services, Human Resources, Life Sciences, Private Equity and Technology, Communications & Media practices, and he manages the firm's Singapore office. Bertrand Richard co-leads the Board Services Practice in Europe and also the Financial Services Practice in France.

Patrick B. Walsh contributed to this article.

## A Advice for the CEO

"Have the courage when they're in your knickers trying to run your business to say, 'That's not your job,' and have patience when they don't understand or you haven't presented your strategy in a way that they like, including CEO succession."

**Edward Mueller**

"Consider your board as a support and not as an enemy; and be open with your board and expose your team to the board."

**Denis Ranque**

"I think it's important for CEOs to sit on other boards, so they can empathize with their own board. Before I sat on another board I wasn't sensitive to how selectively informed an outside director can feel. After understanding that, we raised the standard that we use for informing our own board. When you sit on someone else's board as a CEO, it is much easier to understand the difference between managing and oversight."

**Randall Hogan**

"The number-one thing is trust. You must have open communication, transparency and vulnerability."

**John Wiehoff**

"Really use the board as a sounding board."

**Daniel Camus**

"Don't be afraid to discuss your innermost worries with the board. The biggest thing you have to worry about is what you don't tell the board, not what you tell them. My other piece of advice is to figure out how to best leverage the capabilities of the board to add value to what you're doing."

**Louis Lavigne**