

A Board Road Map™ : The Realities of Becoming a Director

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The American public boardroom today appears older, more entrenched, and offers fewer apparent opportunities for public board service than most any time in the recent past. This is driven heavily by simple numbers - there are now only around 5000 public companies, down from nearly 8000 only 15 years ago. Another factor is that the average age of an American public company director is now 63 years old - an average age which has been steadily increasing. In addition, board seat turnover has been extremely low. According to one published 2012-2013 public company governance survey, nearly 60% of boards indicated they did not replace a single director in the last year.

Unlike in the public realm, opportunities for board service in other places - especially in the charitable world - are now numerous. The number of charitable organizations has blossomed in the last decade. Likewise, private company opportunities are also greater than in the past. However, many of the board-level roles for today's private companies may be filled by private equity firm members of firms invested in them or by family members, as many of the 5.7 million private companies have family roots. But for now - as the interest of most people I talk with is in becoming a public company director - let's focus on the public company realm, as many of the lessons and needed tasks will be the same regardless of where one wants to serve.

We at The Directors' Institute™ believe that the current trend in the public board realm simply cannot continue indefinitely. There is an eventual requirement, over the next decade, for many

board members to be replaced, simply based on the realities of aging. In addition, growing focus on the entrenchment of boards by the SEC and ratings agencies, by dissident shareholders, and in the press seem to augur for some focus on improving American corporate governance, a significant part of which will be a new generation of board leadership. Also, the seemingly growing wave of companies going public will, it would appear, add to the roster of possible public board service opportunities.

We are already seeing harbingers of change: 40% of this past year's newly elected S&P 500 directors were first-time directors, and an increased focus on diversity of thought and background, especially among progressive boards, has further opened the door for a new and dynamic generation of board members. And, although 2012 marked a slow year for overall board seat turnover, nearly 2/3 of companies indicate they plan to recruit a new director over the 2013-2014 timeframe.

If you want to be a part of this next generation of directors, you will need to approach the search for a board seat with the same focus a successful executive looking for new role should display on a job search. You need to be intentional in your actions. You need to have information on where your skills and abilities may give you the best chance of success - metaphorically in "which waters you want to fish." And, you must realize that the vast majority of board seats will be filled through relationships. Let me emphasize that again-- for the vast majority of new public company directors, getting a board seat will be almost all about the relationship – or lack thereof. Competence is needed, at least to the extent to be a viable looking candidate in a public disclosure, but it will not be the thing that will get you a board seat - relationships will. To help you manage all three of these aspects--informational, intentional, and relational-- you need tools that are all focused in a common direction - call it a "roadmap" - targeted on the

destination you want to get to, all while taking the route that will get you there with the fewest obstacles in your way.

Before we talk about the generic aspects of our roadmap, let me address some differences among not-for-profit, private, and public company board opportunities. After addressing these differences, we will address the overall framework for your board search roadmap, as there are more similarities than differences among the various board types.

Non-profit boards are often the easiest to get on, but entail obligations that oftentimes go beyond pure governance, like providing “wealth” as well as “wisdom “ as a board member. Should you be interested in nonprofit leadership, this is a great opportunity to give back to your community or a specific focus you may have as an individual, and can give you some initial exposure to the workings of a board. Understand, however, that nonprofit boards often serve management functions as well as board functions, as especially smaller nonprofits may not have a depth of management that allows a true separation between governance and management activities. Larger nonprofits tend to have greater separation, and are more similar to the for-profit board structure. Your roadmap for serving on a nonprofit board can actually be a pretty direct route: find a cause in which you have an interest, get involved (oftentimes including some financial support), and ensure current members of the board know you have an interest in board service. Keep in mind, however, that membership on a nonprofit board does not automatically qualify an individual for membership on a public or private company board, and if you are getting involved in a non-profit only for the reason of attempting to use it as a staircase to get on a public board, be aware that it seldom works. Having said this, however, oftentimes relationships can be built by service on not-for-profit boards that can further an individual’s network, which can ultimately lead to opportunities for public company board service.

Should your objective be a leadership position in a private company board, you will initially need to emphasize the informational aspects of getting a board seat noted previously, as one of the most difficult steps in your journey to private company directorship is simply finding out where the opportunities may be. Here, again, relational factors intersect with informational; you need to look for private companies who might need your skills at the board level, and then build relationships with individuals who are currently on that board, or are key influencers who may be able to help you. Be aware that many private company boards are actually family office situations in disguise, and a clear prerequisite for board membership is membership in the family that maintains the equity ownership majority.

Lastly, should your objective be a board seat in a publicly listed company, you will probably find this to be the most challenging and circuitous route. American public company governance is unique across the globe, especially given the large number of CEOs who also hold the title of chairman of the board. Governance groups say that this corporate coziness - where the CEO acts as his own boss because he reports to himself in his chairman role - allows unchecked risk-taking, and is partially to blame for the entrenchment of the American boardroom. But for you as a board candidate, it is important to understand that in companies that have a combined chairman and CEO role, the selection of potential board members will be heavily influenced by this one individual. And, though the number of companies that have this dual arrangement has been decreasing, especially in the large-cap space, the average American public company is a small-cap company. In the vast percentage of small-cap companies, the dual CEO chairman role still remains.

Finally, before talking individual routing instructions on your roadmap, it can be helpful to dispel a few myths about the board selection process, including:

- Getting a board seat is generally not going to be a “search play”. Although executive search firms tend to be involved in board search activities for large-cap companies due to their high visibility, in more than three quarters of small-cap board searches, an executive search firm is not retained. Even in mid-cap firms, the disclosed use of a search firm is less than 50% of the time. If you have “celebrity” status, or you are a former high government official, or a very senior military officer looking for board seats in a defense related industry for a large-cap company, you may find ensuring that executive search firms are aware of your board candidacy can be helpful. If, however, you are a C suite executive, it is less likely that an executive search firm will be your route to a public company board seat. It can't hurt to try this avenue, but be forewarned that for anyone but a sitting public company CEO (who continue to be in high demand in most industries), the attention you will get from a search firm will likely be minimal.
- Be cautious of anyone “promising” you a board seat, as even in companies where there is a Chairman/CEO, there are still governance “hoops” to pass through, and the decision to add a new board member is seldom made by a single individual. Clearly there are influencers who can be identified and who can be key to getting a board seat, but it will likely be a decision of multiple people.
- As noted previously, getting on not-for-profit or early stage company advisory boards is probably not going to give you a direct connection to a public company board. It can, however, help you build further relationships that may offer you that public board seat connection.

- Finally, remember it is not all about competence. Though there are many, many, excellent board members in the American public company boardroom, there are also board members well past their prime who fall asleep at meetings, who don't read materials, and who probably add much less value than they cost. They do, however, have the relationship, and that is often the key determinant in board selection and retention.

Now let's talk about your roadmap to a board seat, regardless of whether that board seat you desire is in the not-for-profit, private, or public space. The key thing you need to remember as you approach board opportunities is that you must be intentional about it. The Directors' Institute™ will help you with this intentionality by first providing you the information base upon which you can build. Let's talk about each of the three key elements of the roadmap in detail:

- The baseline upon which you will have to build is in the informational category. Your starting point here needs to be a board bio and resume that highlight effectively the value you can bring to a board, based on your management and previous governance experiences. In addition, your informational baseline needs to include core knowledge of how the boardroom works, the current trends in governance, and the duties and obligations you will be taking on as a board member.
- The next major part of your roadmap needs to be in the relational category, where you take the information you have built and the core knowledge you have about boards and how they operate, and begin to find out for yourself where you may be able to find the best board opportunities. This part of your metaphorical trip can be informed by three proprietary tools developed by the Directors' Institute™, though those tools will need to be augmented by strong relationship skills on your part. These tools include:

- o **Board Network Map**™ - your network map is a customized map depicting your first and second degree connections within the board world. This product will allow you to see where you have relationships that might be an entry point for a board opportunity, so that you can use the power of introductions and referrals to gain visibility.
- o **DirectorSource**™ - building on the informational work done in compiling your board bio and resume, we work with target companies, governance and nominating chairs, and board search firms to ensure maximum visibility of your background. Our affiliate companies have an incentive to look at DirectorSource™ first, because it provides a prescreened list of executives without the cost of retained search engagement.
- o **DirectorSymposium**™ - finally, Directors symposium events allow you to further add your informational knowledge, but more importantly get face-to-face exposure with current public company directors at informal breakfast, lunch, and panel discussions. Though these events are educational in helping you understand current challenges to governance, the most important aspect of the Directors symposium is the relationship building opportunity it can present to you.

Keep in mind when working to build relationships that there are key influencers you want to be looking for: on the board itself it is the Chairman/CEO (especially if he holds both titles); the Chairman (if an independent chair); the Lead Independent Director (if there is one); and the head of the nominating/governance committee. Outside the board itself, key influencers can be the outside general counsel for the company, as they often provide recommendations on prospective board members; the audit partner working with the company; and in many cases

key large institutional holders of the stock, though there is substantial debate on whether nominations from key holders are looked at favorably or not.

The final part of your roadmap needs to focus on the intentionality of your board search efforts, though again, the intentionality needs to be supported by the information you now have on board activities, and by the relationships you will be in the process of targeting. To help you and support your intentional efforts, The Directors' Institute™ has developed several proprietary tools, including:

- **Directorship HeatMap™** - your directorship heat map is a proprietary customized study of the companies for which you could be a solid board match, based on factors including industry and functional experience. Combining this heat map with your network map can allow you to action introductions and initial relationship building opportunities that can enhance your opportunities for a board seat.
- **Board Triggers™** - to help you continue on your journey to a board seat, we provide Board Triggers™ - customized notifications for each individual member, alerting you to director departures or open director searches which could signal board membership opportunities specific to your skill sets.
- **Board Seat Action Plan™** - and finally, The Directors' Institute™ works in consultation with you to build an actionable plan to increase your competitiveness and exposure to board opportunities and to enhance your knowledge and networking - essentially giving you a map to follow to get to your final destination.

With the tools listed above, applied with a focus on building relationships, you have a map that can get you a board seat. Making the trip is up to you, however, as even the best of maps is useless without some forward motion.

Good luck!