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## Boards Get Strategic When Picking Directors

By Marc Hogan October 26, 2015

Nom-gov chairs are being more strategic about how they recruit new directors, but practices vary widely.

Since **Citizens Financial Group** began trading as a stand-alone public company last year, the midsize U.S. bank's board has been on the hunt for new directors.

The former **Royal Bank of Scotland** subsidiary has succeeded in its searches, says Citizens nominating and corporate governance committee chairman **Shivan Subramaniam**, in part because it had a strong idea of what it hoped to find.

"The reason it works well is we knew what kind of person we were looking for," says Subramaniam, who from 1999 to 2014 was CEO at privately held insurer **FM Global**, where he remains chairman. "We tried to really evaluate what kinds of skill sets we needed to make sure we made the bank a stronger bank."

Effective October 1, the Citizens board named **Christine Cumming**, a former **Federal Reserve Bank of New York** official who became the bank's third non-RBS director since separating from its troubled foreign parent. The story of her appointment, some nom-gov chairs and director recruiters say, highlights how boards are increasingly looking for new members in a more strategic way than they once did.

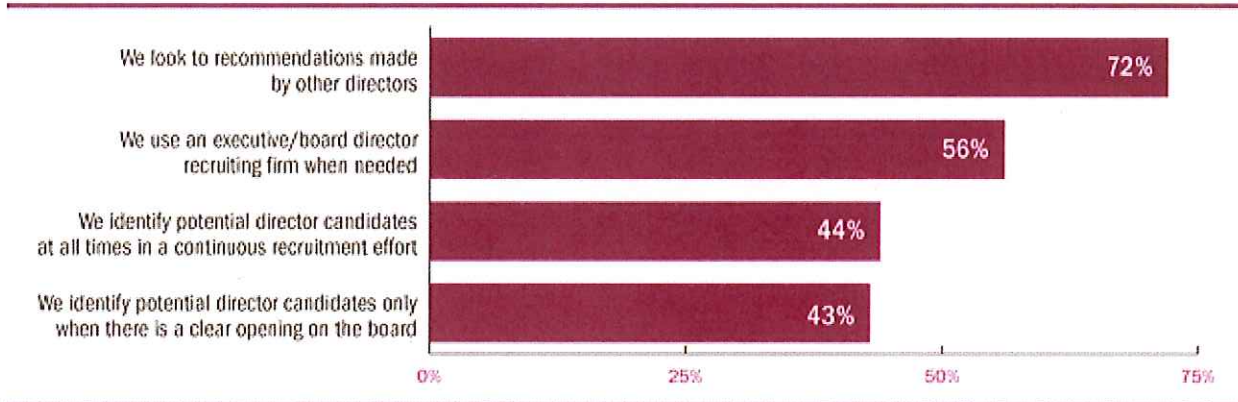
**Best Buy**'s September 14 election of **Karen McLoughlin**, CFO at **Cognizant Technology Solutions**, as a director "was part of a deliberate board succession process," says **Kathy Higgins Victor**, who chairs the board's nominating, corporate governance and public policy committee.

"The approach to selecting a board director has become more of an independent process over recent years and employs rigorous due diligence," writes Higgins Victor, also the founder of executive coaching firm **Centera Corp.**, in an e-mail.

"Best practices include examining the skills sets and contributions of each director on an annual basis to ensure the board composition supports the strategic direction of the company," she adds. "Emphasis on specific skill sets, diversity and gender are key components to ensuring the board is continually refreshed with new perspectives and ideas."

**Betsy Bernard**, nom-gov chair at **Principal Financial Group**, **Sito Mobile** and **Zimmer**, has also noticed a gradual yet dramatic evolution in how boards find new directors, from relying on personal networks to increasingly seeking out specific types of experiences.

### Which of the following describes your board's time line and practices related to director recruitment?



Source: Survey of 250 companies by Deloitte and the Society of Corporate Secretaries and Governance Professionals

Whether Bernard has used a high-priced search firm, a lower-priced search firm or, at smaller companies, found a new director without any search firm, she says, “it always starts with ‘What do we need, and why?’” She says most companies have moved toward a “much more disciplined” process with “very specific” skill sets in mind.

Principal, for one, has added **Blair Pickerell**, who recently retired as Asia chairman of **Nikko Asset Management**, and **Roger Hochschild**, COO of **Discover Financial Services**, to its board so far this year.

To be sure, nom-gov chairs and recruiters say, the start of the change in best practices dates as far back as the Sarbanes-Oxley Act of 2002. The types of skill sets particularly in demand have gone in and out of fashion as well, from the post-SOX need for financial experts to more recent emphasis on areas such as cyber security or international experience.

Still, this year’s appointments have coincided with a growing emphasis on board composition more generally, whether it’s **Calstrs’** cautioning boards about the issue in a midsummer note or companies’ disclosing more about their directors’ backgrounds in 2015 proxy statements. **Equilar** recently rolled out a digital tool for assessing board composition and looking up connections to potential director candidates.

Of 250 companies surveyed by the **Society of Corporate Secretaries and Governance Professionals** and **Deloitte**, 72% indicated that their first option for recruiting new board members is to ask their own members for recommendations, according to the December 2014 report. But 56% said they use a search firm to find new directors. While 43% said they find potential candidates only when a seat opens, 44% said they had a process in place to identify potential board candidates continuously.

When boards use a search firm, some nom-gov chairs say, what matters is that they trust the person who will be handling the account. “You don’t want to have somebody come in and give the sell job and you get assigned the lowest person on the totem pole to actually do the search,” says **Jane Henney**, who chairs the nom-gov committees at **Cigna** and **AmerisourceBergen**.

Henney says her boards have usually gone through a careful vetting process with prospective search firms, considering their particular abilities and track records. She jokingly calls it “the most frustrating situation” when a search firm brings back 50 names of candidates rather than focusing on a smaller group more tailored to that particular board.

“I’ve liked working with firms that will come in and not only tell me about the qualifications of a candidate, but why the search firm believes they’re a good fit for our company at this particular time,” Henney says. “Even if they only give me six to 10 names, [the] kind of searching and screening that they can do from their professional perspective is great.”

Whether a board hires a search firm or looks for a new director on its own, the next step after developing a

description of the skills required for the board opening is still to ask around the table if anyone knows a potential candidate, says **Peter Browning**, lead director of **Acuity Brands** and a director at **ScanSource**.

“The only reason you want to know if anybody knows anybody is not about the good-old-boy network, but to make sure this is someone who isn’t disruptive,” says Browning. “I could show you 10 great résumés and would say all 10 of those would be terrific, except they would all be a disaster because of their personality.”

Interviews with a short list of director candidates, Henney says, can help determine if there’s a mutual fit. She suggests optional interviews between a candidate and the committee chairs as another way to “ensure strong buy-in on both sides.”

**Heidrick & Struggles** vice chairman **Ted Dysart** says that where once boards turned to recruiting firms “to find a name,” in the Internet age that’s the easy part. “The real question,” he says, “is how to have the knowledge about someone and their business thinking to understand if they are going to be a fit for this company’s board.”

**RSR Partners** managing director **Carter Burgess** says that while the basic steps haven’t changed, the way a board approaches it has. “When we work with clients to come up with the candidate profiles, we’ve just seen a trend toward more granularity, looking at the profiles much more thoughtfully than in the past,” he says.

A preliminary draft report prepared by **Beverly Behan**, president of corporate governance consultancy **Board Advisor**, for discussion at the **Canadian Society of Corporate Secretaries’** annual conference in Montreal in August draws on interviews with a number of U.S. and Canadian directors. The report’s findings include a “sharp division of views” over the retainer fees that boards typically must pay search firms, whether or not they appoint a candidate the firm recommends.

“There’s no pay for performance in the director search model at the big firms,” says Behan, who is offering her own search services on a “success fee” basis.

**Beth Stewart**, a former director at **Carmax**, **General Growth Properties** and **Avatar Holdings**, uses a success-based fee structure as CEO of **Trewstar**, a boutique search firm that specializes in placing women on corporate boards.

“Beverly is correct that traditional search firms require a retainer,” Stewart says. “Their clients often end up very dissatisfied, and that creates opportunity for us.”

Some non-gov chairs and recruiters, meanwhile, stress that whether the eventual nominee comes from the firm or from the board shouldn’t matter.

“What they’re engaging us for is to run a process,” Heidrick & Struggles’s Dysart says. “We’re adding value by helping them get to a decision.”

RSR Partners’ Burgess agrees. “It’s a process,” he says. “May the best person win.”

**Stuart Levine**, non-gov chair at **Broadridge Financial Solutions** and lead director at **D’Addario & Company**, shares a current example from a company he prefers not to specify. A search firm is in place, and someone on the board recommended a personal connection as a board candidate.

“You trust the person that’s leading the search for the search firm, and then they vet that candidate,” Levine says. “I’m more focused on getting the right candidate. I’m less focused on where they come from and how they got there, if it costs a couple of bucks or somebody earns their fee.”

Henney adds: “If we get a great board member, they’re worth every penny. If the outcome doesn’t work so well, then they’re not worth a penny.”

However a board decides upon its newest recruit, Citizens' Subramaniam notes that the candidate must also choose the company, not just the other way around.

"We have to be attractive, too," Subramaniam adds.

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