

## **Seeking Out New Directors**

The starting point for all Boards in the recruitment of new directors is understanding who the organisation is and where it is going. Successful strategic planning means that you have a vision and mission, backed by a set of values, and have identified achievable goals for the future. You should also have a clear picture of your organisation in five years time.

One of the resources is the Board. What types of directors do you need? What is the perfect Board for your future? Is the Board lacking any specific knowledge that new directors could bring?

The following two extracts on systematic director selection and nomination practices and the benefits of demographic diversity on boards are from a research paper from the Office of the Status of Women entitled Women's Representation on Commonwealth and Private Sector Boards. The paper provides an insight into the general questions of selection processes and diversity, and brings out some interesting thoughts that are applicable to a range of circumstances.

### **Systematic director selection and nomination practices**

The policy of the Australian Institute of Directors is that merit be, and remain, the principle on which director nomination and selection is based. The practice, though, has been far from merit-based for a very long time. Many commentators attest to the importance of factors other than merit in the nomination and selection of non-executive Board directors.

Social connections, rather than expertise in corporate governance 'dominate the director recruiting process' (Davis and Thompson, 1994:149). Board members, according to a member of an international search firm, used to be chosen because they met the criterion of '*being a good bloke*', had a career in the right company or had the appropriate connections (Stephenson, 1995). Henry Bosch, former head of the National Companies and Securities Commission (now the Australian Securities and Investments Commission, speaking on the ABC program, Business Report in 1995, said:

the notion of corporate governance is a very new one. Ten years ago nobody was concerned about these things at all. Nobody thought that it was important how boards operated. I recall a few years ago Lord Boothby, who was a very well known director and politician, described his role in the following words: 'No effort of any kind is called for. You go to a meeting once a month in a car supplied by the company. You look both grave and sage. You say, "I agree" three times and "I don't think so" twice. And if all goes well you get ten thousand a year'

The reasons offered for women's lack of representation on Boards speak mainly to their apparent lack of availability. Yet Corporate Governance International, which conducted a study commissioned by the AIMA, noted that 'less than ideal attention' is being paid to director succession planning and selection. Its survey results show that 58 percent of boards had *no stated procedure for selecting and nominating new directors* and only 9 percent had nominating committees making recommendations (Richard Gluyas, 'Governance bombshell: only 1 in 10 up to scratch', The Australian 17 April 1997).



A merit selection and appointment process requires an assessment of potential directors' background skills and experiences against the roles the Board needs to fill and the tasks the Board needs to perform. Comparative judgments need to be made of the individuals within the pool from which directors are chosen. This pool needs to be a broad one, broader perhaps than the apparently appropriate pool, for a Board constantly seeking the best of the talent that is available. As one woman Board director put it:

“Boards need to... trawl for directors in appropriate, rather than safe and traditional, pools of talent (Eve Mahlab, cited in Karen McChee, 'Changing boardroom culture' Sydney Morning Herald 21 September, 1996).”

Current selection criteria for company board directorships are very narrow and ill-defined. The Karpin report argued that:

“Existing criteria for eligibility may be too narrow and not tap the range of qualities and background experiences that will lead to better decision-making and problem-solving. It is apparent that Boards need to be able to call on general as well as specialised knowledge, soft skills as well as technical expertise, and a broader range of experience across all their appointees, both male and female (Karpin, 1995:252; and see Ferguson, 1992:1).”

David Benn, Managing Director of Korn/Ferry International, commented in a press release announcing the publication of the latest Korn/Ferry survey (1997) that Board members' characteristics tend to fall 'into a narrow age and functional band', and that current moves to broaden members' profiles will have:

“the flow on benefit of reducing the exposure to risk inherent in a narrow definition of qualifications (Korn/Ferry Media Release, 26 June, 1997).”

Stephenson (1995:7) suggests that, rather than starting with 'names of people who may join a Board:

“the right process starts out with a discussion... about the type of skills and capabilities which are needed to complement the skills of the board and to provide help in guiding the overall strategy and performance of the organisation... it is important that this is then followed up by a process which generates a number of potential candidates for any one or more positions which are being appointed, rather than again just settling on one candidate.”

Progress is being made on improving selection techniques, but not quickly enough to place significant numbers of women into the pools of candidates regarded as suitable for Board positions in the foreseeable future. The Korn/Ferry 1996 survey showed 17% of Australian Boards had a nomination committee (1996:12), of which half were less than a year old. The figure was 20% in the most recent survey (Korn/Ferry, 1997:17). In another study, of the top 100 Australian firms (Stapledon and Lawrence 1996:24) 19% of Boards had a nomination committee (up from 12% in 1994). These figures can be compared with those of the United Kingdom and the United States, which have reported an increase over the last two years from 69% to 73% of Boards with a nomination committee (Korn/Ferry, 1996; 1997a).

Only a minority of Boards use an executive search process for the selection of new directors (15%, up from 9% in 1995, but once again, this might well be a function of the small sample size)



(Korn/Ferry 1997a:10). The most common methods for selecting directors are by major shareholders (26%) and informal input from the board (33%) (and see Beck, 1995).

Best practice dictates the use of a nomination committee. Improved methods of selecting directors, including executive searches, will move Boards closer to a merit-based process, and, at the same time, will undoubtedly lead to an increase in the proportion of women holding Board positions.

The composition of Board committees as well as the board itself requires careful consideration. Nomination committees need to be more diverse in membership than has been the case. Bilimoria and Piderit (1994b) obtained data from the first 300 Fortune companies and from Standard and Poor's Register of Corporations and found that nominating committees tend to include non-executive directors who sit on other Boards and who have high Board tenure. This, no doubt, reflects the perceived need for them to be familiar with the Board requirements and with the potential pool of candidates (Bilimoria and Piderit, 1994b:349), but it leads to them being, on the whole, older and male and thus people who might tend to be alert only to prospective candidates from a narrow demographic base.

The more informal are recruitment and selection processes, the more likely it is that stereotypes and assumptions about women's capacity will influence the processes of assessment (Brockbank and Airey 1994:6). On the other hand, the higher degree of clarity about the Board's and its committees' purposes and tasks and about the skills and experiences of directors charged with carrying them out, the smaller the influence of stereotyping of women's potential contribution (Bilimoria and Piderit, 1994a:1465).

## **The Benefits of Demographic Diversity on Boards**

Demographic composition is, according to recent U.S. research, a key indicator of receptivity to change: the lower the average age, the shorter the organisational tenure, the longer the executive tenure relative to organisational tenure (indicating recruitment from outside to executive rank), the higher the educational level, and the greater the diversity in technical specialisations, the higher the receptivity to altering strategic direction in response to changing environmental circumstances (Wiersema and Bantel, 1992:93).

Wiersema and Bantel demonstrate that competitiveness and viability depend upon a company's ability 'to anticipate and respond to opportunities or pressures for change, both internal and external' (1992:91).

Changing business realities, changes in workers' demographic characteristics (especially the increasing participation of women in the labour market) and globalisation of the economy 'have multiplied the marketplace heterogeneity faced by firms without complementary changes in the internal composition of their top teams occurring' (Bilimoria and Piderit, 1994a:1454). More diversity in Board demographics provides corporations with a competitive advantage 'allowing them to deal more effectively with diversity in their product and labour markets' (1994a:1454).

Nevertheless, the need for trust and shared values among directors remains strong. The literature is replete with references to 'homosociability' (best translated as 'cloning') as a normal practice in director selection as well as in senior management selection and succession planning (see Burton, 1997). The literature provides some support for this tendency, when it reports that there is a value to homogeneity, age similarity, compositional similarity in values, attitudes, status, affecting cohesion



and group consensus positively (Bilimoria and Piderit, 1994b:339; and see Michel and Hambrick, 1992; Wiersema and Bantel, 1992:96).

Many directors note that the contribution collegiality might contribute to a collaborative working environment. It can also act as an obstacle to increasing diversity and its attendant strengths, which in his view include:

- bringing widely varied perspectives and experiences to complex issues of strategy and performance monitoring; and
- the greater likelihood of the Board addressing the broad social impact of many business decisions (Perlman, 1995:8).

Ceridian, a U.S. company which has been the recipient of many best practice awards, including a 'best board' award, has a board of ten directors, nine of whom are outsiders, two are women and one an Afro-American. The CEO aims for a process of governance that is 'robust, pluralistic and adaptable' and believes that diversity should be sought in corporate boards for the same reason as it is increasingly valued in management- not for 'politically correct' reasons, but for business competitiveness reasons (Perlman, 1995:8).

Theoretical and empirical work has suggested that 'diversity in attitudes, values and orientations is effective in non-routine problem-solving situations... excessive homogeneity in members' values, goals and experiences may lead to 'groupthink' (Wiersema and Bantel, 1992:96), to a 'harmful insularity from external forces' (Michel and Hambrick, 1992:17). Heterogeneity is associated with 'high levels of creativity and innovation':

“the presumed benefit of a diverse group is that its members' different points of view lead to diversity, novelty, and comprehensiveness in the set of recommended solutions. The members of such a team will be able and willing to challenge each others' viewpoints... a need to reconcile diverse solutions and viewpoints stimulates effective group discussion and, in turn, high-quality decisions” (Wiersema and Bantel, 1992:96; see also Cox and Smolinski, 1994).

Diversity in board membership, including increased women's representation, now features on Board 'best practice' lists, such as that of Korn/Ferry International (1997:7). Korn/Ferry's argument is consistent with those set out above:

“when board members come from different backgrounds, countries, companies and types of organisations, they can share a wealth of information and serve as a reality check - providing outsiders' views on the [business] strategy's effectiveness”(1997:2; and see Burton, 1997, for a similar argument in relation to executive management).

Women directors articulate this view from their own experience. Alice Emerson, director of First National Boston and Penn Mutual Life Insurance (and with a background in education) comments:

“Especially as a new Board member we can ask questions about why things are done the way they are which may provide both valuable information and a chance to take a fresh look at practices that may no longer have advocates” (cited in Schwartz, 1980:12).

Marina Whitman, vice-president and chief economist at General Motors, director of Manufacturers Hanover, Procter & Gamble and Westinghouse Electric, is cited by Schwartz as saying:



“I think that because my background and experience have been to pose analytical questions, I am able to pose such questions to business in a way sufficiently familiar to them to know what I'm talking about and yet sufficiently different so that the questions I ask may not have been posed as yet or even thought of previously.” (1980:8)

The 1995 Catalyst survey of CEOs from the Fortune 500/Service 500 companies found that:

CEOs [are] indicating that the trend toward increasing female representation on boards is driven by an awareness of the fundamental changes in American society and business management. [They say] 'the best formula for losing pace in today's business climate is to have a board homogeneous in gender and race' (Catalyst, 1995b).



## Who's Next? – Finding qualified board candidates

The following section is from US Credit Union Executives Society Author Sandra Huges.

The skills, expertise and level of commitment of the people gathered around your board table will help determine your organisation's ability to leverage resources, respond to change, and make a difference in your community—they will influence your organisation for years to come. Effectively recruiting new Board members is an incredibly important responsibility of the Board and CEO. Not only is it important to identify qualified, enthusiastic candidates, but also to ensure candidates understand the commitment board service requires.

### Sound Strategy

Although it might be difficult to make time in the press for other business, Board recruitment and development should be treated as an ongoing process, not just something the Board engages in for a few months before the annual meeting, or as vacancies arise. Similarly, it takes more than brainstorming for an hour once a year to come up with the right people for the Board. The CEO and current Board members are wise to take a keen interest in finding qualified people and providing them with enough information to make a wise decision about serving on the board.

Recruiting new directors is every Board member's responsibility, not just the nominating committee. A nominating committee, or task force, - which may also be called the board development committee, the committee on trustees or something else - may design the process or spearhead the effort. But if the organisation is to be successful in bringing new talent to the board, the knowledge and personal and professional networks of every board member needs to be available to the committee.

It's valuable for the Board to examine its own composition in light of the organisation's current challenges and aspirations.

Don't let your thinking be limited by who is currently serving on the Board, or by the organisation's current structure or programs. In other words, ask yourself where you want to be as an organisation, and then think about the kind of Board you'll need in order to get there. This may lead you to unanticipated conclusions.

One practical way to determine the characteristics sought is to take an inventory of current skills, contacts, and other important attributes, determine where holes exist, and frame recruitment strategy as an attempt to find people who can fill existing gaps.

One common recruitment strategy is for current Board members to suggest people they know - and this can be a very effective way to recruit, since current Board members serve as "references" for new Board members and can often be successful as advocates.

However, the unintended result can be a very homogenous Board - one that perpetuates the status quo rather than promoting change or widening an organisation's impact circle. Although it may be more difficult, recruiting outside your circle of "usual suspects" may bring Board members who add an unexpected, but extremely beneficial, dimension to the Board.



## Diligence

Carefully planned Board recruitment takes special care to not only evaluate, but inform Board candidates about the organisation and their responsibilities once they become board members. *Recruiting new Board members can resemble courtship.* To woo a new member, an organisation may cover its blemishes, gloss over challenges, and downplay the amount of work that board service involves. Similarly, potential Board members may be so flattered to have been asked to join that they neglect to realistically evaluate commitments involved.

In time, reality sets in. The organisation's faults and foibles are exposed and the Board member has to confront the fact that Board service is more than an honorary appointment. It takes real work. Both the organisation and candidate are better served by an honest, straight forward recruitment approach. You want Board members who are both excited by what you do or want to do, and willing to work hard on your behalf.

A good question to consider as you begin to think about Board succession planning is, "How would I like to be recruited?" Over the years, it has become apparent that the seriousness with which a Board member is recruited and selected is directly proportional to the seriousness with which the Board member fulfils his or her role.

Providing a clear picture of the organisation and what is expected of its Board members may take some time. Board members can come to the position in a variety of ways. Some may be long-time members or supporters of the organisation; others may have relatively little knowledge of the organisation or its work but possess valuable skills, experience or community connections. Some individuals will have wide experience as a Board member, while others may be serving for the first time. As a result, it is important to tailor the information and orientation to meet the needs of each board prospect. Consider some of the following ways to give prospective Board members an accurate and comprehensive picture of the association and its Board.

Provide ample background information. The prospective Board member must understand how the credit union functions, what impact it has on the community, and whether it is highly regarded, financially stable and well-managed. To start, you might want to provide potential board members with a brief history of the organisation and its mission, the most recent annual report, audited financial statements for two or three previous years, the current strategic plan (if one is in place), recent press clippings where the organisation is mentioned, a list of current and past Board members, and a copy of the bylaws or Board policy manual.

Clearly outline the roles and expectations of Board members. As a precursor to recruitment efforts, some organisations find it beneficial to develop or update board member job descriptions. This process not only helps establish consensus among current directors about individual roles, but also eliminates possible misunderstandings with new recruits.

A second vehicle for clarifying expectations is a letter of agreement between a Board member and the organisation. The letter may detail attendance policies, professional development requirements, ethical or conflict-of-interest standards and any other pertinent policies. It might also answer specific questions such as: How long are board terms and are Board members limited to a specific number of terms? Who pays for travel and other expenses that Board members may incur during the course of their service? How much time is required in a given year?



Provide a forum for the prospective Board member to ask candid questions. After a candidate has had time to review the written material, schedule meetings with other board members and the CEO. In these conversations, a candidate can get a frank assessment from fellow Board members about their experiences of serving on the Board, and can also find answers to less concrete questions, such as why he or she was approached to join the Board and how the Board determines the characteristics it seeks in new members.

Remember, if a prospective Board member is hesitant, concerned about the time commitment, or objects to a particular Board responsibility, respect his or her reluctance. Suggest a different role or come back with an invitation to serve at a better time. For those who say yes, take time to make them welcome and even more knowledgeable through a well-organised orientation.

## Exit Strategies

Along with a well-planned recruitment strategy, finding an exit strategy for Board members who are no longer contributing effectively can breathe new life into the Board. Following are some suggestions that make it more comfortable to ease out under-performing Board members.

- *Impose term limits.* Consider limiting the number of terms a Board member can serve—two or three, three-year terms are common limits. Term limits provide a painless exit strategy for non-performing board members and ensure a constant infusion of new blood and energy.
- *Adopt an attendance policy.* Many Boards have policies, sometimes included in the bylaws, stating that members who miss more than two consecutive meetings without extenuating circumstances can be removed from the board. Even if rarely exercised, such policies send a message that attendance is important, and provide another potential tool for asking under-performing Board members to resign.
- *Encourage Board members to engage in an annual or periodic self-evaluation.* A simple, one-page self-evaluation form can serve as a subtle reminder of expectations and provide an annual opportunity for Board members to re-evaluate their commitment. Examples have been provided on the following pages.
- *Use advisory committees, task forces and other special groups.* If you would like to keep some people engaged, for political or personal reasons or because of valuable skills, consider asking them to join a special task force or advisory group. Be careful, however, not to let these groups become a sanctuary for under-performing trustees.
- *Consider Board restructuring.* Because the needs of an organisation change over time, structures can become outdated and counterproductive. A Board that is too large, too small, meets too seldom or too often, or has too many committees can contribute to the growth of deadwood. You can infuse new energy by increasing the size of the Board, or you can use downsizing as an opportunity to lop off deadwood.
- *Use the regular nominating process to ask all board members whether they want to remain on the board.* Don't assume that you have to wait until a Board member's term is up to ask if he or she wants to continue. Some people recognise their poor performance and are grateful for the chance to bow out.



## **Board Development**

### **Best Practice and Benchmarking**

In order to become competitive, most organisations are benchmarking themselves against others and re-engineering to achieve best practice in areas like production techniques, delivery times, information systems, quality standards, inventory control, response time and complaints handling.

Benchmarking means comparing your own performance against the identified best in the field. How can you as a director ensure that your Board, and you individually, are keeping up with best practice at Board level?

Standards of performance should flow out of the definition of the role of the Board and the job description for a director or chairperson. If your Board defines these roles well, then the standards of performance are much easier to distil. One thing for certain, the standards which we should be looking for are not the same as the standards we use to assess the overall performance of the organisation.

The performance of the organisation depends on everyone achieving best practice in their own area - whether it is management, factory floor, office or boardroom. Each have different goals and different contributions to make. The Board should not cop out and think that if the organisation is doing well that proves the Board is doing the best it can. The organisation may be doing well *in spite of* the behaviour and contribution of the Board.

For the Board, best practice may involve comparisons with organisations in the industry who are seen to have good governance.

Some of the criteria the Board might use for comparisons could include size of the Board, mix of skills, frequency of meetings, the time spent by the board on issues of importance and relevance, the quality of Board information, training for directors, Board mission statement, public profile, perception of the Board by stakeholders, committee structure, nomination procedures, quality of written material, frequency of contact with stakeholders, quality of management appointments, remuneration policies etc.

For individual directors, Boards need to set performance criteria based on the needs of the organisation. These will flow from the job description for directors. Some standards might include:

- Preparation for, attendance at and participation at board meetings;
- Overall good judgement in addressing issues;
- Critical analysis of issues;
- Team contribution;
- Special skills contributed;
- Public profile and credibility;
- External network contacts;
- Availability and commitment;
- Involvement on special projects; and
- Reliability.



*Board and director performance needs to be evaluated in the same way that we expect management performance to be scrutinised. Many directors do not yet feel comfortable about such scrutiny.*

Perhaps added to the list of skills and attribute of a director should be the ability to critically evaluate your own performance, modify and change your behaviour when necessary and be big enough to move over when your own contribution is no longer making a difference to the organisation.

## **Board Development Strategy**

The following are points from a community organisation in the United States with a strong belief in Board development.

- Keep your Board of Directors relevant. The original board may not reflect the current needs of your organisation.
- Established terms of office and rotation of leadership are vital to a dynamic organisation.
- Turnover of a portion of the Board of Directors should occur periodically and should be a part of the by-laws of the organisation. Good members can be retained by membership on committees or by asking them to serve again after a lapse of a year or two.
- Consciously review the roles and responsibilities of the Board each year as changes occur on the Board and within the library institution.
- The context of the mission of the group defines who should be on the Board. Choices might include: prominent citizens from various constituencies; emerging communities; politicians; specialists in law, marketing, computers, accounting; givers and doers in the community.
- Non-voting liaisons to the Board can include: prospective Board members; liaisons to other groups; those concerned with the governance of the library; local philanthropies; school and other cultural institution administration for outreach development.
- A human resources committee should be established for the cultivation of new Board recruits and their orientation.
- A continuing long-term appraisal of the needs and performance of the board is necessary.
- Younger officers and key people in corporate settings and smaller companies are an excellent and often neglected source of Board members. They can help with leadership, financial support, advocacy and volunteers. They want to be seen as good citizens and should be given a visible role.



## Director Performance

Good directors are always striving to improve their performance. How do you think you rate as a director? Work through the questions and give an honest yes or no answer. Once you have completed this step work back through each question and give yourself a plus (+) or minus (-). A plus (+) indicates that you are totally happy with your performance in this area and there is no room for improvement. A minus (-) indicates that you have some room for improvement.

Performance Question	Yes	No	+/-
Do I attend all meetings?			
Do I take a positive contribution at meetings?			
Do I make positive proposals for the benefit of members?			
Do I prepare adequately for meetings?			
Do I participate in the discussion on agenda items?			
Do I analyse and evaluate agenda proposals?			
Do I keep up to date with what is happening in the industry?			
Do I keep up to date with what is happening in the market place e.g. moves by competitors, new products, marketing trends etc?			
Do I accept tasks which require my involvement at times other than Board and Committee meetings?			
Do I carry out these tasks positively and effectively?			
Do I have vision?			
Do I act honestly in the exercise of powers, functions and duties of office?			
Do I exercise reasonable care and diligence in the exercise of the powers?			
Do I avoid conflicts of interest and not misuse my position to gain an advantage or cause a detriment to the organisation?			
Do I avoid improper use of information acquired by virtue of my Directorship?			

Now list 3 ways you can turn a negative into a positive

Action Item	Action Date	Diarised <input checked="" type="checkbox"/>
1. <b>Benefits</b>		
2. <b>Benefits</b>		
3. <b>Benefits</b>		

Such an exercise should be done on a regular basis to allow appropriate reflection on performance. It may identify gaps in knowledge for changing organisations. Remember, being a director is not a “state”



## **Westport Innovations Inc**

### Position Description - Individual Directors

- a. Contributes to fulfilling the responsibilities of the Board of Directors as outlines in the Westport Board Charter
- b. Attends all Board and Committee meetings of which the Director is a members, the Annual General Meeting and the Directors' annual governance and strategic planning retreat
- c. Prepares fully for all Board and Committee Meetings of which the Director is a member
- d. Contributes knowledgeably and meaningfully to Board and Committee deliberations, inside and outside of meetings.
- e. Possesses skills of financial literacy
- f. Possesses an ability to think strategically
- g. Possesses many of characteristics and competencies identified of Westport Directors
- h. Listens carefully and applies his or her skills, experience and knowledge effectively to strategic issues facing Westport
- i. Asks appropriate questions of management so as to add value and encourage discussion of key issues
- j. Understands the difference between governance responsibilities and day-to-day management
- k. Makes him/herself available when needed
- l. Works effectively and constructively with Board colleagues and with management and is a team player
- m. Demonstrates integrity and high ethical standards

*Extract from document entitled "Position Descriptions, Assessing Board, Committee and Individual Performance, and Re-Election of Directors" found at <http://www.westport.com/investor/governance.php>*

