

Add Board Service To Your CEO Development

by Karen Kane

Heavier time demands of both top executives and directors have made it less and less likely new CEOs will gain outside board seasoning. The result: CEOs with limited knowledge of how boards work, less exposure to peers, and lagging boardroom diversity. What if your company instead made exposure to outside boards a basic element of your top executive succession planning?

Despite calls for greater diversity in the boardroom, the percentage of women on corporate boards in the U.S. hovers around 15 percent. Board composition has also been impaired by the trend that fewer CEOs and working executives are now serving on corporate boards.

In reviewing 50 years of corporate governance in the U.K., Sir Geoffrey Owen, a professor at the London School of Economics, noted that in 2010, only 41 percent of FTSE 150 CEOs and CFOs sat on an outside board. “It is a concern that so much experience and talent is unavailable to FTSE boards, and that too many executives are not getting the benefit of serving on an outside board.” In the U.S., more than half of S&P 500 CEOs do not sit on any outside boards. In addition, there are fewer CFOs and C-suite executives with board seats.

Dramatic events like the 2011 ouster of CEO Carol Bartz at Yahoo! have a way of focusing public attention on boards in general, and how they deal with succession planning. What are boards doing to ensure that the next generation of leaders is being developed to ensure the continued success of the company? How are boards renewing themselves? Do they have the right mix of talent and perspective on the board to provide the oversight needed in today’s global economy?

“While serving on a board is a great responsibility, it is also one of the most underutilized opportunities

for professional development for an executive bound for a CEO role,” says Jennifer Christensen of JWC Partners, a recruiting firm. “The truth is that CEOs want to serve on an outside board. Because most companies now limit their CEOs to serving on just one outside board, it has to be the absolutely ideal board. Most often, the call for that perfect board seat never comes.”

What if the process were reversed? What if a board recruiting firm looked for the ideal board for an executive as part of professional development and CEO succession, rather than simply recruiting a candidate on behalf of the board? While few firms yet include this, it was a natural approach for Jennifer Christensen. With an earlier career at Procter & Gamble and McKinsey, both known for developing leaders, Christensen took her experience to bring this approach to the market.

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“One of biggest challenges a new CEO faces is how to deal with the board,” observed Cynthia Jamison lead director of Tractor Supply and chair of the audit committee at B&G Foods. “That’s one of the biggest gaps for a new CEO, understanding governance and having board experience.”

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The financial crisis revealed just how disconnected boards become when active CEOs and working executives are absent from the boardroom. Active CEOs see developments unfold in their own businesses, and then bring that perspective to the board. It makes the executive a better CEO, who in turn enriches the outside board with real-time, real-world perspective.

Yet, becoming a first-time board member while simultaneously assuming a new role as CEO can be very challenging. Christensen's idea was to recruit C-suite officers who could bring their operating and business expertise to the board company and take advantage of the rich learning opportunities of being a board member. She had to find a board that embraced the idea.

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Luckily, the chairman of the A.O. Smith nomination and governance committee, Ron Brown, embraced the concept. “We had two exceptionally fine leaders and from a succession standpoint, we wanted to make certain that our internal candidates for CEO were being properly developed. It’s very healthy for a sitting CEO to have an outside board experience so that he or she can better understand how boards function, and how management interacts with boards. This can help the executive better prepare for board meetings and utilize their own board.”

Paul Jones, chairman and CEO of A.O. Smith and a veteran director, was just as enthusiastic. He sees succession planning as a top priority, working closely with the board on this shared responsibility. “We’re here for our shareholders. We want to be sure that there is someone to slip into my role seamlessly if something happens to me. At the same time, we have succession planning for other key roles as well.”

Jones was a believer in the benefit of board experience for executives, and had established a policy at A.O. Smith for his senior staff to sit on one outside

board.

“When Ron Brown came to me and said, here is a process to get our top executives involved on boards more quickly, I said great. It was just so much more efficient than calling around to see what board seats were available.” He engaged Christensen to find the right board seat for three executives and later expanded it to the full senior management team including the general counsel.

“Our job is to create value for our shareholders, and the board oversees that,” said Mark Petrarca, senior vice president of A.O. Smith Corp. “Our management team has a very strong working relationship with our board, and Paul believes that his senior team will be better executives if they think like board members.”

Petrarca sees the value in the process for himself. As a human resources executive, Petrarca brings to the boardroom important perspectives on compensation, talent development, CEO succession, M&A and acquisition integration.

One of the board targets that Christensen identified was Lincoln Electric, which Chris Mapes, president of A.O. Smith’s Electric Products division, joined as a director in 2010. In September, Mapes was named chief operating officer of Lincoln Electric. “We had hoped to keep Chris,” Jones said. “But Lincoln Electric offered him a great position and all we could do is wish him well.” Jones adds that he knows where Chris is. “I have his phone number.”

Ajita Rajendra, a divisional president at A.O. Smith and a possible successor to CEO Jones, welcomed the chance to serve on a board. “Jennifer’s process helped me to think through the concept of an ideal board position for me.”

The process began with a set of companies that offered Rajendra exposure to new industries, new products, new materials and new distribution systems, while also giving him the opportunity to add value to the board by leveraging his varied business experience and global perspective. “I understood how I could contribute to the company and also benefit personally from the experience,” said Rajendra.

Christensen had identified a manufacturing company with global operations, with experienced board members and a collaborative board culture as char-

acteristics that would suit Rajendra. For its part, the company welcomed the international and operating experience that Rajendra represented. Christensen brought the two together and it was a match.

“As a board member, I take off my operations hat and focus on the strategic, governance and compliance issues,” says Rajendra. “I have an opportunity to utilize my operational experience to ask questions from a strategic point of view, to probe, to push to satisfy myself that the company strategy is sound, and is being implemented in a manner that maximizes shareholder value.”

Rajendra believes that he has become a better executive from his work on the board, which he joined in 2010. “There is so much to be gained by absorbing the experience of the other board members in the room,” said Rajendra. “I have tremendous respect for my board colleagues, and the A. O. Smith board members and I have learnt a great deal from them.” In September, he was promoted to president and chief operating officer of A.O. Smith.

The A.O. Smith board has seen the impact on both executives, as they deal with the board with much greater confidence. “CEOs should be using their boards for advice and counsel to create value for the enterprise,” said Brown.

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“Going on a board at this time has taken some of the ‘rookiness’ out,” said Rajendra. “As a board member, your primary role is strategic, ensuring that the company has the right vision, long term plans and risk assessment systems in place. Then the table is set for the management team to perform.”

“Today’s boards are looking for more seated executives,” says Cynthia Jamison. “If the executive then happens to become a CEO, the outside board is the beneficiary. For the executive, it’s far different sitting at the table as a member of management than it is sitting at the table as an independent board member.”

Better Prepared and More Diverse Board Seasoning Helps Women Execs

While a strong executive development plan to give senior executives exposure to outside boards benefits everyone, it can be particularly helpful to female executives seeking their way into the “club.” Here are some online sources for additional background on this important topic.

- The 2011 Catalyst Census:** Fortune 500 Women Board Directors examines women’s representation in corporate governance at the largest companies in the U.S.
www.catalyst.org/publication/433/women-on-boards
- Corporate Board Survey** is an annual corporate governance survey that tracks responses to governance issues.
www.Jwcpartners.com
- WomenCorporateDirectors** (WCD) is a global membership organization and community of women directors.
www.womencorporatedirectors.com
- Women on Board** is a community of women who serve and aspire to serve as directors on company boards. Its website is a source for news and events.
<http://womenonboard.org.uk/>
- The International Alliance for Women** (TIAW) has been recognized for its efforts to encourage the appointment of more women to corporate and non-profit boards.
www.tiaw.org/Women_On_Boards_Program.asp
- Corporate Women Directors International** (CWDI) promotes the increased participation of women in corporate boards globally, fosters national and international networks to link women directors, and seeks to hone directors’ skills in corporate governance.
www.globewomen.org/cwdi/cwdi.htm

That, she says, is a hard transition to make. “However, it’s good for executives to get a board seat and be forced to understand that side of the table where they don’t have their fingers in all the details, but that they are still charged with a huge responsibility.” Many first-time board members may be great executives, but they get way too involved in the tactics. The expression “nose in, fingers out” is very relevant. There is no substitute for the experience.”

“I want all my executives to serve on an outside board because it makes them better at working with our board,” adds Paul Jones. “Chris and Ajita will both be CEOs someday and it’s clear they already know how to communicate with the board, what to communicate. It makes our meetings run so much more efficiently. I’ve served on boards where the CEO hasn’t known how to manage or how to communicate with the board. Experience is the best teacher.”

Bonnie Lind, a CFO and treasurer for Neenah Paper, was one of the lucky ones to get the call for a board seat that was a perfect fit. She became a director at Empire District Electric Co. At this stage in her career, it is not about the money but how she can make a contribution, learn and use her time effectively. “To have the opportunity to get educated in a key driver of my business—that’s important.”

The fit between her CFO job and her board work has been very synergistic. Lind routinely brings best practices back to Neenah. For example, Empire used a board portal and she saw how convenient it was. Not only did she bring the idea to the Neenah Paper board, but Empire helped the Neenah board through the process.

Lind has spent her entire career in a male-dominated industry and has worked hard to always “carry her own weight.” As for women on boards, “I’m anti-quota,” Lind says. “I came on the Empire board not to be ‘the woman,’ but to bring my capability.”

It pleases her that every Empire board member knows why they are on the board—for specific expertise. As two-thirds of the board has turned over, she credits the nominating and governance committee for identifying and then recruiting for specific capabilities. “We know where we need advice.”

Cynthia Jamison sees great benefits in adding more active executives to boards. “It’s especially important to have seated executives on audit committees. The financial world has changed so dramatically post Sarbanes-Oxley. You could have been the most brilliant CFO, but if you retired before 2000, you’re not going to have a clue what it’s like to be a CFO these

days. I’ve been a public company CFO both before and after SOX and I know how much it’s changed.”

Sean Erwin, retired CEO and chairman of Neenah Paper, agrees. “Board members who have been retired for several years just can’t bring that market intelligence to the board. It helps to be current, especially in executive session when management leaves the room.”

In the end, board service is one of the few professional development opportunities for CEOs. It helps CEOs get outside of their world to see other examples, prompting them to look at their own business in a new, healthy way. At the same time, getting more active executives involved in boards brings value to the board through the perspective of someone who is on the ground, managing the business day to day, responding to market threats and opportunities.

“Being on an outside board has helped me in dealing with my own board,” says A.O. Smith Chair Paul Jones. “I know I bring a certain CEO perspective to my board. Today, the financial markets are especially challenging. When I go to a Federal Signal board, the CEO asks me what I’m seeing. I can provide that backup. There’s just so much you learn doing board work.”

One director characterized the reverse board recruitment process as ‘McKinsey meets board recruiting.’ In the context of executive talent development and succession planning, board development is a strategic process to evaluate the senior executive and identify companies where the executive’s current operating expertise might be helpful to the board.

The art comes in examining the current board composition of the company and determining fit. This is a process that Jennifer Christensen finds very satisfying as a recruiter. “It enables me to be an advisor and strategist.” The results have been spectacular. “I get the satisfaction of seeing how the board experience strengthens these executives as they make significant contributions to the boards they serve.” ■