

Joining Boards: It's Not Just Who You Know That Matters

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For many, a corporate directorship is a career capstone. But attaining one is far from easy. No one can say for sure how to get on a corporate board, but many people point to two routes: the first is to break into the “right” network and the second is to seek a progression of board seats that begins with, for example, a seat on a not-for-profit or community board and eventually results in appointment to a corporate board.

Both paths are problematic – neither is particularly transparent or relies on objective measures and given that many boards are stubborn bastions of white masculinity, pursuing the “right” network can be fraught, especially for women and other diverse candidates. Indeed, our research reinforces that concern: many boards still rely on their own (mostly white, mostly male) networks to fill seats.

There's a different way – one that is more measurable, controllable and offers greater transparency. It starts with a focus on skills. Although many boards continue to select new members from their own networks, our research suggests that more are beginning to implement objective processes to select members based on the skills and attributes that boards need to be effective. Our 2012 survey, in partnership with WomenCorporateDirectors and Heidrick & Struggles, of more than 1,000

corporate directors across the globe, found that 48% of the boards had a formal process of determining the combination of skills and attributes required for their board and, therefore, for new directors.

We know this approach can work because we've seen it: We studied a large corporation that was being split into two public companies for which two new boards had to be created. The chairman wanted to create two balanced boards, with the mix of skills, knowledge, and experience each company needed. He appointed a special team to create an objective, transparent method for selecting the directors. After reviewing the roles and responsibilities of each board and the natures of the new businesses, the team derived lists of the skills each board needed. Then it created a model containing the dimensions critical to a high-performing board, from functional and industry expertise to behavioral attributes. This approach led both companies to recruit board members that were diverse in needed strategic skills. Both boards are on to a good start – demonstrating that when a firm builds a board using a rigorous assessment of the qualities it needs to carry out its governance task, rather than personal networks, the board is better equipped to execute its functions.

In our survey, we also asked about specific skills. We wanted to know which were the strongest skills represented on boards and which were missing. Directors named industry knowledge, strategy, and financial-audit expertise as their strongest skill sets.

STRONGEST SKILL SETS — OVERALL

What is the strongest skill set or area of expertise you bring to this board?



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And 43% cited technology expertise, HR-talent management, international-global expertise, and succession planning as the skills missing most on their boards.

MISSING SKILLS — OVERALL

Are there skill sets or areas of expertise missing or insufficiently represented on this board?



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We also looked at results by industry and region. The industry with the greatest skills gap was IT & telecommunications, whose boards are in serious need of international-global expertise and HR-talent management.

MISSING SKILLS BY INDUSTRY

Are there skill sets or areas of expertise missing or insufficiently represented on this board?

| | Consumer Discretionary | Consumer Staples | Energy & Utilities | Financials | Health care | Industrials | IT & Telecom | Materials |
|--------------------------|------------------------|------------------|--------------------|------------|-------------|-------------|--------------|-----------|
| Percentage saying "Yes" | 47% | 48% | 41% | 41% | 34% | 37% | 55% | 53% |
| If "Yes," what are they? | | | | | | | | |
| Technology | 38% | 14% | 17% | 38% | 27% | 22% | 24% | 2% |
| HR-Talent management | 21 | 43 | 13 | 19 | 14 | 31 | 26 | 11 |
| International-Global | 19 | 14 | 29 | 16 | 23 | 24 | 38 | 0 |
| Succession Planning | 23 | 21 | 13 | 19 | 18 | 20 | 17 | 16 |
| Industry knowledge | 17 | 14 | 21 | 20 | 23 | 7 | 21 | 0 |
| Sales & Marketing | 17 | 14 | 29 | 9 | 14 | 13 | 21 | 4 |
| M&A | 11 | 7 | 8 | 9 | 0 | 22 | 14 | 36 |
| Risk management | 17 | 7 | 21 | 10 | 0 | 20 | 17 | 7 |
| Strategy | 9 | 14 | 8 | 16 | 14 | 18 | 17 | 0 |
| Regulatory | 9 | 14 | 8 | 12 | 18 | 7 | 12 | 16 |
| Operations | 4 | 0 | 29 | 10 | 5 | 4 | 12 | 0 |
| Financial-audit | 11 | 7 | 4 | 10 | 5 | 16 | 12 | 0 |
| Compensation | 6 | 14 | 4 | 7 | 5 | 9 | 10 | 4 |
| Evaluation-Assessment | 9 | 7 | 0 | 10 | 5 | 4 | 14 | 2 |
| Other | 4 | 7 | 0 | 1 | 5 | 0 | 2 | 2 |

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The region with the greatest board-level skills gap is Asia, where risk management and M&A adeptness are sorely needed.

MISSING SKILLS BY REGION

Are there skill sets or areas of expertise missing or insufficiently represented on this board?

| | Asia | Australia & New Zealand | Eastern Europe & Russia | North America | Western Europe |
|---------------------------------|------|-------------------------|-------------------------|---------------|----------------|
| Percentage saying "Yes" | 53% | 43% | 52% | 43% | 35% |
| <i>If "Yes," what are they?</i> | | | | | |
| Technology | 35% | 28% | 27% | 39% | 12% |
| HR-Talent management | 35 | 22 | 7 | 16 | 32 |
| Succession Planning | 30 | 9 | 33 | 17 | 20 |
| International-Global | 0 | 13 | 47 | 26 | 23 |
| Strategy | 17 | 16 | 20 | 12 | 16 |
| Risk management | 26 | 9 | 7 | 12 | 16 |
| M&A | 30 | 9 | 7 | 7 | 15 |
| Industry knowledge | 9 | 16 | 7 | 19 | 15 |
| Sales & Marketing | 4 | 19 | 7 | 15 | 16 |
| Operations | 4 | 13 | 13 | 10 | 12 |
| Financial-audit | 13 | 9 | 13 | 12 | 3 |
| Regulatory | 4 | 6 | 13 | 7 | 14 |
| Evaluation-Assessment | 13 | 3 | 7 | 5 | 7 |
| Compensation | 9 | 3 | 0 | 5 | 7 |
| Other | 0 | 9 | 0 | 2 | 0 |

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Based on our research and experience with boards, we believe that the future of director selection is becoming an increasingly objective and skill-focused process. Networks aren't going away, but aspiring directors may want to approach their search by asking not only, "what skills do I need to get on a board?," but also by looking at what skills boards already possess and what skills boards need. One strategy might be investing in your own human capital to become the board member corporations need.

Methodology

We surveyed more than 1,000 board members in 59 countries. (U.S. boards made up 37% of the sample while 62% of boards represented were from outside of the U.S.) We analyzed the data along several dimensions including geography and industry. Specifically, we did a geographical breakout by eight major world regions: Asia; Africa; Australia and New Zealand; Eastern Europe & Russia; Latin America; the Middle East; North America; and Western Europe (due to low sample size or domination by one or few countries in a region we have excluded three regions, Africa, Latin America and the Middle East, from our findings).

The industry breakout was done using eight major sectors (similar to those in the Global Industry Classification Standard system): Consumer Discretionary (e.g., consumer durables & apparel, retailing, education, media, hotels, restaurants & leisure); Consumer Staples (e.g., food, beverage & tobacco, household and personal products); Energy & Utilities (e.g., oil, gas & consumable fuels, electric, gas and water utilities); Financials (e.g., banking & financial services, insurance, real estate); Health Care (e.g., pharmaceuticals, biotechnology & life sciences, health care equipment and services); Industrials (e.g., aerospace & defense, construction & engineering, industrial conglomerates, professional services, textiles); IT & Telecommunications (e.g., computers & peripherals, electronic equipment & components, semiconductors, wireless telecommunication services); and Materials (e.g., chemicals, metals & mining, paper & forest products).

The following multiple choice list of 14 skills was used in the survey: Compensation; Evaluation-Assessment; Financial-audit; HR-Talent management; Industry knowledge; International-Global; M&A; Operations; Regulatory, legal and compliance knowledge; Risk management; Sales & Marketing; Strategy; Succession Planning; and Technology. Participants were asked to choose one (or a write-in option of “other”) for the strongest skill set or area of expertise that they brought to the board. They could choose as many as applied for skill sets or areas of expertise missing from the board (including a write-in option of “other”).

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