The director as competitive weapon

Think 'board as arsenal' and each director a carefully considered strategic element in the arsenal. BY DAYTON OGDEN AND DENNIS C. CAREY

CLEARLY there has been a sea change in the business world in the course of a generation, and boards have been brought along with the current. While much has been made in the media about the "revolution" in the boardroom ignited by outside pressure groups, the changes have actually been more of the evolutionary variety. Change has taken place in small increments but, when viewed in the context of longer-term trends, there is much evidence to support the fact that boards are dynamic institutions and that the criteria for selecting effective directors continue to evolve to better meet the needs of shareholders.

As part of the annual Spencer Stuart Board Index (SSBI), which we have undertaken for more than a decade, we examine major long-term trends affecting boards. It may be useful to consider some of these trends as both context and catalyst for modifications in the profile of the next generation of directors. In this way, we can attempt to answer not only the question, "What sorts of directors will boards need?" but, "Why?"

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Here are some of the ongoing trends we are seeing both in the 1996 SSBI and in our work with boards, followed by some thoughts on how these trends will continue to shape the profile of directors now and in the future.

Boards are smaller. The decrease in size is mainly a function of a net decrease in the number of inside directors, as well as the fact that smaller boards can operate more efficiently. Leaner boards mean each director plays a more critical role. As a result, there will be even greater emphasis than in the past on identifying the most effective director to fill a particular seat.

Outside directors predominate. In a shift from the insular boardroom of a generation ago — where directors were primarily close friends and confidantes of the CEO, interlocking directorships were common, and the board was essentially an extension of management — companies now realize they must complement the management side of the equation with a wide range of outside intelligence and expertise if they are to expand their horizons to new markets or remain viable competitors in old ones. Think "board as arsenal" and each director a competitive weapon — a carefully considered strategic element — in the arsenal. Boards will be increasingly eager to recruit directors who can extend their peripheral vision in key areas with specific relevance to their company: current and future markets, products, and related expertise.

Boards aggressively seek international experience, though not necessarily international directors. Regardless of the size of a company or its location, the globalization and interdependency of markets has impacted virtually everyone. Though it is far from impossible to recruit international directors, distance may present a formidable challenge when directors must regularly attend board and committee meetings. Because of this difficulty, many companies continue to look for alternatives that can inject the needed global perspective into their boards. American executives with extensive international experience will continue to be highly desirable candidates for board seats and boards will continue to tap overseas expertise through international advisory boards.

Boards recruiting with greater sophistication and precision. Boards previously focused more on general requirements in filling a vacant board seat, for example, recruiting a CEO, a woman, or a minority. Now, by contrast, there is increasing emphasis — using outside consultants, such as search firms — to find executives with the skills to fill a specific niche on a board. Though there remains strong demand for active CEOs as directors, boards increasingly recognize the value of adding retired CEOs and heir apparents, as well as those with expertise in specific functions and disciplines, particularly finance, marketing, and technology. The traditional preference, CEOs, may possess firsthand knowledge of what is required to move a business, but those with more focused expertise are increasingly sought as elements of a carefully planned overall strategy.

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Boards are more independent and ready to take action when needed. A preponderance of outsiders on boards, compensated increasingly in stock to reinforce their allegiance with shareholders, has created a breed of directors much more likely to add value to management's plans and strategies. Corporate management and boards are not necessarily the warring factions depicted by way of selected example in the press. Because of increased scrutiny and pressure from a number of fronts, however, directors today are more inclined to take decisive action when necessary, and have far less tolerance than their predecessors for underperformance or incompetence. This independence on the part of directors is part of the package, and a valuable part, as boards seek to enlarge their universe by adding outsiders who can augment their existing resources with critical skills and a different perspective.

Boards meet less frequently, with committees picking up the slack. Though there are generally fewer board meetings than in the past, many more demands are being placed on individual directors to contribute at the committee level, where the bulk of board work is now accomplished. It will no longer be enough for directors to show up at regularly scheduled board meetings, having done their reading and ready to go. The strengthening of committees will mean that directors will need to make a greater commitment to contributing time, effort, and expertise between board meetings.

A classic *Harvard Business Review* cartoon from about 10 years ago depicts a chairman addressing the assembled directors with the statement, "That's my gut feel — now I'll recognize any other guts." While this tyrannical view of the boardroom was a bit of a stretch, even then, there have been dramatic changes in the role of the director and the contribution each is expected to make to the board.

Rather than assembling a board, as in the past, with directors who shared the CEO's world view and experience, the emphasis will continue to be on building a board — much like building a portfolio — by adding carefully selected directors who will enhance the board with their unique experience, relationships, expertise, and value-added thinking. Enlightened CEOs of companies that are doing well and want to perform even better will welcome the opportunity to work with these directors for the benefit of management and shareholders. ■