

DIRECTOR RECRUITING

Report from the Lead Director Network

The eighth meeting of the Lead Director Network (LDN) took place on Nov. 3, 2010, in Washington, D.C. The LDN is a group of lead independent directors, presiding directors, and nonexecutive chairmen drawn from leading corporations who “are committed to improving the performance of their companies and to earning the trust of their shareholders through more effective board leadership.” The group is sponsored by the King & Spalding law firm.

At the November meeting members discussed how to define and enhance board performance. Among the lead directors who participated were: Frank Blount, presiding director, Caterpillar Inc., and lead director, KBR Inc.; Roy Bostock, nonexecutive chairman, Yahoo! Inc.; Bonnie Hill, lead director, Home Depot Inc.; Karen Horn, lead director, Eli Lilly & Co.; Linda Fayne Levinson, lead director, NCR Corp.; and Ken Powell, lead director, Medtronic Inc.

Participating King & Spalding partners included J. Kelley, partner, Corporate Practice Group; Michael Smith, partner, Business Litigation Practice Group; and Chris Wray, partner and chair, Special Matters and Government Investigations Practice Group. George Anderson and Anthony Goodman, partners in Tapestry Networks, were the discussion leaders. Following is a passage from the report of the meeting that focuses on the discussion the group had on director recruitment.

LDN members agreed that it is essential to recruit talented, committed individuals to the board. As one member said, “The No. 1 component of a high-performing board is the quality of the people on the board.” Although boards may recruit excellent individual members, this does not necessarily guarantee a high-performing board. As one member observed, “I’ve seen boards composed of terrific directors, but the board as a unit still doesn’t perform well.” Overall board composition is crucial: “There’s something intangible about a well-composed board — it’s the ability to work together and anticipate changes in the environment.”

Recruiting new directors

Traditionally, the nominating and governance committee is responsible for director succession, including determining the slate of directors to be nominated for election and recommending candidates to fill vacancies. Most governance committees manage board succession by drafting and updating a “director skills matrix” that displays each director’s skills, background, and, if applicable, years remaining until the board’s mandatory retirement age. The governance committee also considers

individual committee needs during the director recruitment process. One member said before the meeting, “Very well-selected committees are crucial. You have to properly assess someone’s skills and make sure you have the right people for the right committee.” However, members emphasized that the full board has a key oversight role in the director recruitment process.

Recently adopted SEC rules that require companies to disclose the skills and experience that support the nomination of each director increase the importance of this exercise. One member stated, “Director qualifications are something we have to look at. We have to be able to explain how their qualifications might help us perform better.”

The board that ‘gels’

In order to create a high-performing board, LDN members are mindful not only of the expertise and skills of a particular board candidate, but also of how the candidate may contribute to the board’s dialogue. Members observed that the board functions more effectively when board members “gel.” One member noted, “You’re aware not only

of needing the right buckets of experience when you’re recruiting new members, but also the right overall board composition. This builds collegiality and trust on the board.” Another member said, “Composition is a conscious decision you need to make; you can’t just back into it.”

With the right set of skills and interpersonal dynamics, boards can better respond to changes in the external environment and within the company. As one member said, “Board composition in my industry is incredibly important. You have to have the people on the cutting edge of the industry. You have to have people who see, feel, and know these developments . . . Otherwise you’re going to wake up one day and say, ‘I had no idea that was coming down the pike.’ ”

Board turnover

Most LDN members’ companies have mandatory retirement ages. One member observed, “The mandatory retirement age allows you to bring in fresh thinking and new directors without anyone being upset because one has been asked to stay and another has not.” Another member noted, “It is important to bring new blood in. Term limits are a part of that.” A 2009 survey by the National Association of Corporate Directors found that age limits are the second leading cause of board turnover, behind evaluations of individual directors.



Lead Director Network participants **Bonnie Hill**, lead director of Home Depot Inc., and King & Spalding Partner **John Kelley**.

A copy of the full report is available on the King & Spalding website at www.kslaw.com/LDNViewPoints9.