

First-Time Directors Rev Up

from September/October 2008
by Randy Myers

Just a decade or so ago, Janu Sivanesan wouldn't have triggered the radar in most director searches. With CEOs routinely stocking their boardrooms with peers and compliant insiders, thirty-something outsiders like Sivanesan, a corporate lawyer who emigrated to the U.S. from her native India at the age of 8, weren't snagging many invitations to the ball.

How the landscape has changed. Finding a CEO to join your board today is about as easy as finding a contractor to rebuild your house in New Orleans: They're around, but good luck landing one who has time to help you. Meanwhile, shareholders and regulators alike are putting increasingly tough demands on directors, particularly those who serve on compensation committees. This makes functional experts like the 36-year-old Sivanesan—who recently joined the board of Hurco Cos., an Indianapolis manufacturer of interactive computer controls and software—not just viable candidates for corporate board seats, but real catches.

No surprise, then, that this year's class of rookie directors doesn't much resemble those of the past. Instead of sitting CEOs, it's packed with people who might eventually become CEOs, and others with particular skills. For examples, see the photo boxes on these pages.

Corporate Board Member has analyzed biographical data supplied by the Corporate Library, a shareholder watchdog and research outfit, for 140 men and women who were elected to their first public boards this year. It's not a complete list of new arrivals, but it is representative. Of that group, 57 are up-and-comers currently toiling as presidents or chief operating officers of their companies, as CEOs of subsidiaries or divisions, or as CEOs of privately held concerns—all likely candidates, in other words, to become chief executives of public corporations someday. The rookies on the list also include executives like Sivanesan who are notable primarily for their functional expertise—some working in that role, some retired, and some now doing other things. Among them: 19 CFOs, six accountants, five general counsels, and two technology experts. The list also includes two senior human-resources executives, a specialty that's increasingly in demand.

In addition, the rookie lineup identifies 11 board members representing hedge funds or private equity firms, people who got their board seats at the behest of activist investors bent on pressing for change in a company in which they own a significant stake. *Corporate Board Member* has called on traditional boards to make such newcomers welcome, but that's not always an easy task. "As a rule, nobody likes to be told what to do," says executive recruiter Michael Kelly, managing partner of CT Partners in New York City. "But it's inevitable, and it's something boards have to deal with."

Companies that have gone through this experience include Capital Senior Living Corp., a Dallas-based operator of residential communities for seniors. In March it agreed to expand its board from seven members to nine in order to seat two new directors proposed by big investors: Harvey I. Hanerfeld, 46, a co-founder of West Creek Capital LLC, a Washington, D.C., hedge fund that owns about 6.5% of the company, and Peter L. Martin, 39, a portfolio manager at Matthes Capital Management in San Francisco, which owns nearly 2%.

Neither Hanerfeld nor Martin responded to requests for an interview, but West Creek has been pushing the company to put itself on the block. So it's worth noting that when Capital Senior Living announced the appointment of the two directors, it disclosed that the board was forming a special committee to explore strategic alternatives—selling the company, perhaps, or taking it private. Whatever the board does, chairman James A. Stroud, 57, extended a welcome to the newcomers. "These directors will strengthen the board and provide valuable insight as shareholder representatives," he said in a statement.

Only one sitting chief executive, John K. Morgan, 53, of the specialty chemical company Zep Inc. in Atlanta, is on the Corporate Library's list of new directors. Morgan, who also serves as Zep's chairman, joined the board of Wesco International Inc., a Pittsburgh distributor of electrical and industrial supplies, in March.

Just maybe, the scarcity of sitting CEOs among new board members is not all bad. "Having someone on the board who has been in the same position that I'm in has value, of course," says Per Loof, 57, CEO and a director of Kemet Corp. in Simpsonville, South Carolina, which, among other things, manufactures ceramic capacitors used to store and regulate electrical energy. "But I would say a director's functional expertise and breadth of experience geographically are equally if not more important." When pressed, Loof admits that his views about what makes a good director may have changed. "Even

though a CEO would probably understand me and my viewpoint better than a functional expert, I think the complexity of today's world means that people with functional expertise really are quite valuable and can bring as much to the board as can a sitting CEO."

Little surprise, then, that when Kemet Corp. went searching for two new directors earlier this year, it chose Wilfried Backes, 65, and Joseph V. Borruso, 68, both of whom had industry backgrounds and overseas experience too. Loof notes that over the past three years, the percentage of his company's revenues generated outside the U.S. has risen from about 50% to about 75%. Backes, a German who holds both German and U.S. citizenship, had recently retired as CFO of Epcos AG, a German electronics company. Previously he'd served as CFO of a Massachusetts maker of lighting products and had held various jobs with Siemens AG, the German electronics and industrial-engineering giant. Backes's background as a CFO, Loof says, "was a bonus." More important, "he will add perspective on how one does business in Europe in particular, but also in Asia." Borruso, president of AOEM Consultants LLC in Bloomfield Hills, Michigan, also has industry experience, having served as CEO of Hella North America Inc., a subsidiary of Germany's Hella KGaA Hueck & Co., which manufactures lighting products.

Sivanesan's experience in cross-border business transactions and familiarity with India, of course, explain why she looked so good to the Hurco board. The company is expanding its sales activities in both India and China.

Although Sarbanes-Oxley set almost every company scrambling for financially savvy directors to serve on the audit committee, the kinds of functional expertise that boards want in new directors can vary by industry. Says Robert S. Rollo, a partner with executive-recruiting firm Heidrick & Struggles: "Technology-driven companies are increasingly seeking out chief information officers for their boards, companies growing through acquisitions and mergers are looking for attorneys with deep M&A experience, and in the wake of the recent meltdown in the subprime mortgage market and its crippling of the credit markets, financial-services firms are looking for risk managers." His outfit, he adds, is conducting a number of board searches focused on human-resources executives, both because of the challenges companies face in attracting and retaining employees globally and because of the critical role compensation committees play these days. HR types actually know how total comp packages for senior executives are put together, arcane know-how that directors can surely appreciate.

Executives who can demonstrate expertise in more than one converging industry are also in hot demand. Recruiter Michael Kelly says his firm was actively searching for experts in "new media," a fuzzy term that can include everything from blogs to interactive television; in other words, board members who understand both technology and the media business. "These are not your cookie-cutter directors," he says. "They're typically younger—and younger could mean they're in their late thirties—and they're specialists in their arena."

What are this year's crop of new directors looking to gain from board service? Probably much the same things as those who came before them. Not the least of their motives is a desire to help their companies grow and prosper. Case in point: Tim Armour, 59, who retired as president and managing director of investment-research outfit Morningstar Inc. in March and joined the board of Janus Capital Group, a Denver mutual-fund and asset-management company, that same month.

Earlier in his career, Armour had held marketing jobs with General Foods Corp. and Citibank. His two areas of experience—mutual funds and marketing—made him an attractive catch for Janus, says Robert Rollo, who recruited him for the board position.

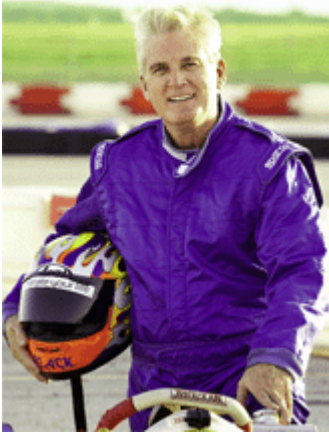
For his part, Armour has no doubt he can earn his keep on the board of Janus, a company he calls "a diamond in the rough" that could well double its size. "I'd love to be a contributor to the growth of Janus beyond where they are, getting into other areas geographically as well as expanding their lines of business," he says.

Time will tell whether this new crop of directors measures up to the expectations of CEOs and the veteran directors who will be shepherding them through their first year of board meetings. But if Armour's early contribution is any indication, it needn't take long for a first-time director to get up to speed. Rollo says Janus Capital Group's chairman found the new director "very fluid and contributory" at his first board meeting, especially when the directors turned their attention to marketing.

Meet Eight New Board Members

from September/October 2008
by Lois Gilman

John B. Nathman



When John B. Nathman, now 60, retired as commander of U.S. Fleet Forces Command after 37 years in the Navy, the four-star admiral and aviator (and go-cart enthusiast) wanted to stretch his wings. So when a recruiter from search firm Spencer Stuart came knocking at his door, Nathman was intrigued. “I don’t want to be that old Navy guy,” he says. “I want to try something different.”

Spencer Stuart had come on behalf of Curtiss-Wright Corp., a Roseland, New Jersey, company whose business includes designing and manufacturing high-tech products in the defense, commercial aerospace, and energy industries. Curtiss-Wright has a long history of making parts for Navy aircraft—and indeed, the board seat was being vacated by another former admiral, James B. Busey IV, who was reaching the company’s mandatory retirement age of 75. Even so, insists Nathman, “I don’t think Curtiss-Wright hired me for my Rolodex—not in the sense that I could be making a phone call—but for my perspective, having a sense of how big systems work.”

Before he signed on in February, Nathman set out to learn more about the company, visiting a California plant that produces crankshafts for Formula One racing cars and a Pittsburgh nuclear plant. Meeting with top management and directors left him with a “wonderful sense of commitment and integrity, as well as a sense of where the company wanted to go,” he says. “They had a strategic plan, and I was able to see a philosophy inside the company.”

Nathman’s next port of call: the business school at Duke University and a weeklong director course. He’s up for it. “The other directors are very professionally crisp and rigorous in how they treat a subject. I see a strong independence on the board, and a critical eye that keeps the CEO and officers on track. I see a company that’s on course.”
—Lois Gilman

Janu Sivanesan

During the courtship period before Janu Sivanesan signed on as a director of Hurco, a maker of interactive computer controls and software, some of the Indianapolis outfit’s board members asked her whether shifting to an oversight role from her job as a corporate finance lawyer on the front lines would be a problem. Not at all. “That was actually attractive to me, this ability to play a different role from the one I play day to day in my law partnership,” she says. And based on the board meetings she’s attended so far, she finds the new perspective “very energizing.”

A 1995 cum laude graduate of Case Western Reserve University School of Law, Sivanesan, 36, has worked on a number of cross-border transactions in India, including some that involved setting up manufacturing relationships and joint venture agreements. “I think my new colleagues at Hurco thought this expertise would be helpful,” Sivanesan says. That they did. In fact, her overseas expertise was very much what grabbed their attention. Sivanesan was recruited by a veteran Hurco director, Richard Niner, 68, a general partner at Wind River Associates, a private investment firm and onetime client.



Sivanesan admits to a “very personal” goal of staying connected to India—most of her family, excluding her parents, still lives there. She also looks forward to being able to “help the Indian markets and Indian businesspeople” as a byproduct of helping Hurco navigate its expansion strategy. Meanwhile, she says, “the company obviously has to identify talent to build out that effort, and I would hope to be helpful there as well.”
—Randy Myers

Hala Modellmog



Hala Modellmog, 52, who became a director of the temporary-staffing health-care company AMN Healthcare in February, has long groomed herself for board service. She took part in a women's director-development program at the Kellogg School of Management in 2005. That year she also attended the Directors' College at the University of Georgia business school, and in 2006 earned a certificate in director education from the NACD Corporate Directors Institute. "I take best practices very seriously," she says. In fact, one of her reasons for joining the AMN board was that it presented an opportunity to further her own education: "There is so much to learn from a publicly traded board." Before joining Susan G. Komen for the Cure, a Dallas nonprofit that has invested \$1 billion in breast-cancer research, Modellmog was president of Church's Chicken and CEO of Catalytic Ventures, an Atlanta private equity firm.

A friendship between the chair of Catalytic's nominating committee and a Susan G. Komen board member led to Modellmog's recruitment. Before accepting, she says, "I conducted my own due diligence. You dig into the numbers and the public data that's available, talk with people in the industry, and get to know others on the board." She met with the directors several times and traveled to San Diego to get acquainted with top managers. The fit felt right. So did the company's mission. "I liked what AMN does—it's

important." So too, she says, is having more female directors: "There are so many phenomenally talented women, and still too few women on boards."

—Lois Gilman

Jeff Lawrence

When Jeff Lawrence, 50, heard from his former colleague Mark Harrington last winter, it was to be asked to consider joining the board of Guidance Software, a Pasadena, California, company that specializes in electronic discovery, programming used by law firms to search for possible evidence buried in e-mail, for example. "I wasn't looking for board service," says Lawrence. "It kind of came from nowhere."

He and Harrington had met in 1997 at communications-software company Trillium Digital Systems, which Lawrence had founded and where Harrington worked as an attorney. They moved on to Intel together in 2002, after it acquired the company for \$300 million. The two then went separate ways, Lawrence to help start another company, Common Grant Application, which connects grant donors and applicants, and Harrington to Guidance Software, where he is now general counsel. They kept in sporadic touch.

Before accepting the board invitation at Guidance, Lawrence asked a number of people about serving as a director, including his financial advisers, who examined analyst reports, and several attorneys he'd worked with at Trillium. One person questioned why he wanted to take on the legal liability. His answer: "Board service isn't really a risk. Anything in life is going to be a risk. I consider risk to be a non-issue."

Lawrence believes the Guidance board will draw on his extensive software and hardware experience, as well as his entrepreneurial and operational expertise. "Trillium was really geeks," he says. And now he's ready to help another geek company grow.

—Lois Gilman



Judy Brown

Recruiter Thomas Kolder of Crist/Kolder Associates has heard a variety of reasons why people won't say yes to a board seat—including this one: "I'm pregnant." That's what Judy Brown said in the summer of 2007 when he called her with a suggestion that she join the board of Belden Inc., a St. Louis company that makes specialty wire and cable products used in data networking.

That wasn't the same as saying no, of course. "Are you willing to wait?" she asked. Belden was. As chief financial officer of pharmaceuticals manufacturer Perrigo Co., Brown, now 40, had the financial skills Belden wanted for its audit committee. Not too long after that phone call, she met with three key Belden people at Chicago's O'Hare airport: non-executive chairman Bryan C. Cressey, 58, a partner at Thoma Cressey Bravo, a private equity firm; CEO John Stroup, 42; and outside director Bernard G. Rethore, 66, chairman emeritus of valve and pump maker Flowserve Corp. and head of

Belden's audit committee. Brown later took part in a series of phone calls with others whom she'd work with if she joined the board and its audit committee. They included Belden's CFO, general counsel, and external auditor. "There was a two-way feeling that it really clicked," she says. She joined the board in February, three months after the birth of her son, her second child. The wait hadn't been that long.

Brown had known that she was on recruiters' radar. "I'm younger and female," she says, "and a CFO with international experience." Fluent in German and Italian, she'd lived abroad for 10 years. Brown had gotten a few calls before Belden made its pass but "screened most of them out. I was going to wait a little longer," she says. "I view board membership as a lifetime commitment. It's like a marriage. When the right fit comes, you take it."

—Lois Gilman

Rebecca M. Bergman

An out-of-the-blue phone call last winter answered Rebecca M. Bergman's long-held hope that someday "the opportunity to serve on a public board would arise." On the other end of the line was David M. Harvey, chairman of Sigma-Aldrich Corp., a St. Louis-based manufacturer of bio- and organic-chemical products. Nobody's saying how he got her name.

"I was interested in having further conversations. I'm a chemical engineer, and they're a chemical company. I felt that intellectually I was in an adjacent space," says Bergman, 52. Still, "because I'm a scientist, I went into fact-gathering and exploration," treating the discovery process as if she were analyzing a potential investment and asking, "What is the company? What do they do? How does it work? What are its financials?" Bergman also visited the company's headquarters to meet key personnel and tour the local facility. Her conclusion: Her potential contribution to Sigma-Aldrich and what she could learn from serving on its board added up to a win-win situation.



Like all of Sigma-Aldrich's new directors, Bergman was immediately put on the audit committee: "They believe that gives you a wide-ranging view of the company and its financials." Board service itself, she adds, affords her the exciting chance "to see a company I have great respect for from the inside out. This is a great opportunity for me to see best practices at work."

—Lois Gilman



Greg Monahan

Greg Monahan, 35, made his way to the O'Charley's board in March as a representative of Crescendo Partners, a New York City hedge fund with a 12% stake in the 364-location restaurant chain based in Nashville. "Our goal as a big shareholder is to maximize the value of the stock," says Monahan. "We go on the board and look to improve the value of the stock. We believe that is what all shareholders want, and we believe we represent all the shareholders."

Although this is Monahan's first directorship, he's been an "observer" in other boardrooms, among them that of digital-imaging company Dalsa Corp. in Waterloo, Canada, where Crescendo invested and pushed for board influence. Monahan did some of his own observing before the fund bought into O'Charley's, visiting restaurants and chatting with customers and employees. "My day job before going on the board was to get to know the company," he says—which he did, concluding that Crescendo should invest in it.

Before long he'll take a director-education course, in keeping with O'Charley's requirement that every member of the board complete eight hours of continuing education annually. All this should give him and Crescendo's two other board reps "the ability to influence the company both operationally and strategically, to allow our investments to go up in value and to help the company maximize its value."

—Lois Gilman

Leslie Murphy

Leslie Murphy, 57, got frequent invitations to join a board over the years—and just as frequently turned them down. She had to, since Plante & Moran, an accounting and business advisory firm in Southfield, Michigan, where she was a partner, banned such service because of concerns over potential conflicts of interest. Partly for that reason, she quit her full-time job at the firm in late 2007, arranged to stay on as a consultant, and began to look for board opportunities. One of those who took note of her planned career change was a fellow member of the Detroit Athletic Club, Daniel Lis, general counsel and corporate secretary of temporary-staffing provider Kelly Services Inc. He was putting together a bunch of potential directors' résumés and added Murphy as a candidate. Before she could do any interviews, however, she had to sever her consulting agreement with her former employer; it turned out that the firm audits Kelly's pension plan. The gamble paid off. The Troy, Michigan, company liked what it saw, and Murphy joined its board in February.

She is not exactly a newcomer to corporate governance. "I have a lot of very valuable background from the perspective of a financial expert," she says. "My skills will complement those of the other directors." And maybe not only at Kelly Services. Murphy now has the time and appetite to join other boards too. "They have to be the right ones," she says, "and such that I can make a meaningful contribution. I'm very careful. I don't want to be overcommitted."

—Lois Gilman

