

FinancialWeek

Board seats are begging for warm bodies

A route to the CEO suite for CFOs

By Jeff Nash

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Boardroom directors wanted: Chief financial officers, executive vice presidents, even—gasp!—heads of human resources are welcome to apply.

That's right, with so many boards insisting that chief executives, long the No. 1 director candidates, concentrate more on their day jobs, companies have been forced to look far afield for outside directors.

Of the 391 new directors hired by S&P 500 companies so far in 2006, only 29% are active CEOs, a 38% decline from 2001. Meanwhile, the number of CFOs and other high-ranking execs among the new director hires jumped 67% over the same time period, and this year accounted for 15% of all new slots, according to executive search firm Spencer Stuart.

So are boards scraping the bottom of the barrel to fill these increasingly important roles? Absolutely not, according to industry experts.

"We're looking at a bunch of new barrels," said David A. Nadler, chairman of Mercer Delta. "This is leading to more diversity in skills and experience."

Along with offering different perspectives, non-CEO directors often can devote more to the job. "Do you want a CEO who is overly busy or someone who has the time, interest and enthusiasm to make a real commitment to the board?" asked Charles King, head of the board practice at Korn Ferry. "People still reaching for that brass ring are enthusiastic and hungry for the job."

First choice beyond an active or recently retired CEO: the chief financial officer. For starters, CFOs bring much-needed financial expertise to the boardroom. And perhaps equally important, there is an ample supply of CFOs with no board directorships to their names.

"For a long time CFOs weren't allowed to serve on other boards because they were wrestling with SOX," said Stephen Mader, vice chairman of executive search firm Christian & Timbers, referring to the Sarbanes-Oxley Act. "But the CFO's life has quieted down some now, and the majority of CEOs and their boards think CFOs should get out and sit on a board because it makes them more effective at their home jobs."

And CFOs are often next in line for a company's top job, a fact not lost on nominating committees. "Companies are trying to recruit directors who have additional runway, like CFOs," said Tom Kolder, president of Crist Associates, a search firm in Chicago, "because the likelihood of these directors moving up to the CEO chair is high."

For example, just last week, Intel elected Yahoo chief financial officer Susan Decker to its board of directors in part because of her operational experience at the Internet company.

The strategy of looking below the CEO for directors has expanded to other top-ranking executives. For example, Theodore Dysart, head of Heidrick & Struggles' board practices for the Americas, pointed out that more CEOs are following the lead of Dirk Jager, formerly the head of Procter & Gamble, who several years ago made the then unheard of decision to let his senior executives sit on outside boards.

"There were 12 executives running \$10 billion, \$15 billion businesses in their own right," said Mr. Dysart. "There are division presidents right now who could be running their own companies. That's one place where boards are looking for new directors."

Take Target Corp., for example.

Mr. Nadler of Mercer Delta, who co-authored Building Better Boards, said the retailer's strategy has long been to identify and elect board candidates at the executive vice president level that may be the CEOs of the future. One bet that paid off: The company tapped Anne Mulcahy for its board before she became Xerox's CEO in 2001.

Even human resources heads have become prime targets. Just as CFOs are needed for audit committees, HR execs are increasingly wanted to serve on compensation committees to deal with the Securities and Exchange Commission's new disclosure rules. For example, earlier this month Louisiana Pacific tapped Lizanne Gottung, chief human resources officer at paper products maker Kimberly-Clark, to sit on its board.

With all these new candidates, you'd think searches for directors have gotten easier, but recruiters agree it's taking far longer to find the ideal candidate. Mr. King of Korn Ferry estimated that 10 years ago it took roughly 90 days to fill a directorship; today it can take up to 180 days. Part of the holdup is that boards are taking more time to make sure they snag talent that complements the rest of the board's strengths. Candidates' and boards' busy schedules don't help.

Mr. King added: "The biggest challenge is getting the talent and the client together." FW

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