

2016 NATIONAL DIRECTORS INSTITUTE

HOW TO RECRUIT NEW DIRECTORS

NOVEMBER 10, 2016

Agenda

A. Starting the Process

1. Board self-evaluation through a current board evaluation/skills matrix
 - a. Identify skills and experiences required to serve on the board
 - b. Identify missing skill sets of the current board
 - c. Consider committee requirements and needs
 - d. Consider governance parameters
2. Create profile for desired director position
 - a. Identify strategic goals and objectives of the board
 - b. Identify qualities and skills desired
 - c. Consider shareholder make-up and demographics
 - d. Cultural fit – diversity
 - e. Organic growth v. external growth
 - f. “Board prospectus”
 - (i) Advantageous for a private company board
 - (ii) Create prior to recruiting
 - (iii) Describe the current board structure and the desired board structure
 - (iv) Outline the goals of the board
3. Attracting candidates
 - a. Opportunity to broaden experiences, perspectives and knowledge base
 - b. Learn from others
 - c. Enhance social and decision-making skills
 - d. Emphasize strong company ethics
 - e. Emphasize strong management structure
 - f. Opportunity to add value
 - g. Rewarding experience
 - h. Create a portfolio of relationships
 - i. Opportunity to provide guidance and advice

- j. Opportunity to help overcome challenges
- k. Offer a fair and reasonable compensation package
- 4. Source of candidates:
 - a. Individuals known by existing directors/officers (“Rolodex method”)
 - (i) Advantage:
 - Better working relationship with the current board
 - (ii) Disadvantages:
 - Depth and range of search is limited
 - Tendency to recommend individuals with similar characteristics
 - b. Recruiting firms
 - (i) Advantage:
 - Easier to find candidates that match the needs of the company
 - (ii) Disadvantages:
 - Other board members are not familiar with the candidates
 - Firms may have exclusions on who they can recruit
 - Costs/fees
 - c. Others
 - (i) Recruiter directories and databases
 - (ii) Shareholder nominations
 - (iii) Advisors

B. How Are Board Members Chosen

- 1. Selection criteria:
 - a. Background of Candidate
 - (i) Professional and personal background
 - (ii) Current employment
 - (iii) Current job duties, responsibilities and time commitments
 - (iv) Prior jobs and responsibilities
 - (v) Business philosophy/style
 - (vi) Educational background
 - b. Experience in particular company’s industry
 - (i) Knowledge of economic drivers of company’s business

- (ii) Knowledge of risks and opportunities
 - (iii) Knowledge of competitive landscape
- c. Diversity
- d. Other director positions
 - (i) Public
 - (ii) Private
 - (iii) Non-profit
 - (iv) Time commitments
- e. Governance philosophy
 - (i) Understanding of director duties and responsibilities
 - (ii) Any director educational programs
 - (iii) View of company's corporate governance policies and charter
- f. Business management experience
- g. Charitable/civic organizations
- h. Any legal problems
 - (i) Professional
 - (ii) Personal
- i. Intangibles
 - (i) Experience, wisdom, integrity and ethics
 - (ii) Good communication skills
 - (iii) Analytical ability
 - (iv) Necessary skill sets/experience
 - Industry specific
 - Public company
 - Managerial
 - Other director positions
 - Financial
 - Technology
 - Governance
 - Strategic planning/succession planning
 - (v) "Fit" with the current culture of the board
 - (vi) Independence / no conflicts of interest
 - (vii) Time availability

- (viii) Committees on which the candidate believes that she/he could add value / why?
- (ix) Views of other shareholders/constituencies of the company

C. Impediments to Recruitment

1. Time commitments
 - a. Concern:
 - (i) Candidates may be concerned that they cannot effectively serve on the board while maintaining another job
 - (ii) Candidates may have time commitment concerns if they serve on more than one board
2. Company Risks/Liability Concerns
 - a. Concerns:
 - (i) Financial risks
 - Inadequate director and officer liability insurance
 - (ii) Risks are contingent on the phase the company is in and the company's current stage of growth/relative size
3. Compensation
 - a. Concern:
 - (i) Candidates will turn down board membership due to inadequate compensation package