

AGENDA

A Financial Times Service

[Print](#) | [Close Window](#)

Your Q&A

Picking a New Director: Expert or Board Veteran?

May 14, 2012

Your Q&A is your opportunity to get your questions answered by industry leaders.

Q:

If a board emphasizes subject-matter expertise when recruiting new directors, does that lead to a narrower overall point of view? Conversely, does emphasizing diversity on the board threaten to compromise understanding of the company's business and industry?

An independent director.

Answered By

Peter Browning

Peter Browning sits on the boards of **Nucor**, **Lowe's Cos.**, **Acuity Brands** and **EnPro Industries**.

A:

In considering the best possible board candidates, the question of subject-matter expertise is often raised. My response has always been, if we need an expert on a particular subject, hire a consultant. The issues companies face change over time. Therefore, boards need to ensure that new members have sufficient breadth of experience so that they can add value when new challenges crop up five years from now.

That is not to say diversity lacks importance. Retailers can benefit from board members with experience in other fields of retail. The same logic applies to industries such as manufacturing and financial service firms. Further, today many boards can gain from having directors with broad international experience. However, the more important question is, what other experience do they have that demonstrates the capacity to work effectively in a group?

While no two boards are the same, directors seeking to fulfill their fiduciary duty must always ensure that board members have the expertise, capacity and experience to address these three issues: Do we have the right CEO? Who is the appropriate successor both short- and long-term, and is there an effective succession planning process? Does the board have the right strategy, and is it being implemented properly?

Boards members need to combine their diverse skills and professional backgrounds in a way that allows them to engage in productive discussions with management and with one another. In addressing these matters together while effectively fulfilling committee duties, the board must create an environment conducive to thoughtful, open and constructive dialogue and debate.

To quote from a recently published paper from the Rock Center for Corporate Governance at **Stanford University** by academics **David Larcker, Eric So and Charles Wang**: “Firms with... well-connected boards of directors earn superior risk-adjusted stock returns.”

In this instance, well-connected means a group that has developed an environment of mutual respect for each director’s particular skills and experiences, so that desired outcomes are achieved.

Of course, the other important succession challenge for boards is their own. Boards usually face their own internal succession planning concerns when valued members approach retirement. Confronted with this challenge, directors should ask whether the board’s special chemistry can be maintained after a changing of the guard.

Common questions boards face include: Do we run the risk of bringing on a director who will adversely affect our board dynamic? Are we at risk of losing a skill set we need for a particular committee or for the full board?

To help in the discussion, each board should include a grid in its nominating and governance committee notes. One axis will list sitting directors in descending order of retirement dates from the board. The other axis will feature a list of board skills and backgrounds. With this information, the board is in a position to answer the questions noted above.

As for the importance of diversity, diversity of experience, background and thought is paramount for effective board outcomes. I quote from a description of a business policy course at my alma mater, the **University Of Chicago Booth School of Business**: “The most productive strategic thinking takes place in environments in which there is honest dialogue amongst a diverse group of people who are not reluctant to say what they really think.”

Agenda is a copyrighted publication. Agenda has agreed to make available its content for the sole use of the employees of the subscriber company. Accordingly, it is a violation of the copyright law for anyone to duplicate the content of Agenda for the use of any person, other than the employees of the subscriber company.

An Information Service of Money-Media, a Financial Times Company