

# CORPORATE BOARD MEMBER®



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## GUIDE TO **DIRECTOR ONBOARDING**

Evolving regulatory structures, disruptive competitive forces and investor scrutiny help ensure that today's corporate directors operate in increasingly dynamic boardroom environments. Despite this rigorous environment, more new directors are joining corporate boards today than in previous years. Boards must be prepared to onboard those new directors and facilitate a process that allows them to hit the ground running, so they can begin to make meaningful contributions early in their tenure.

Many corporate boards have adopted onboarding programs that emphasize both formal education and socializing new directors to boardroom culture. In fact, because effective onboarding boosts confidence and the ability of incoming board members to leverage specialized skills, boards that prioritize the preparedness and success of incoming directors stand to gain a marketplace advantage and maximize their own long-term health. Moreover, ever-diversifying boards operating in parallel with advancing technology, the effects of globalization and evolving shareholder and regulator expectations serve themselves best by remaining engaged and dedicated to continued education efforts, which begin during director recruitment and onboarding.



## BOARD COMPOSITION TRENDS

A board's effectiveness and ability to respond to a wide range of challenges is ultimately determined by its composition. Forward-thinking boards tend to accommodate a broad spectrum of experience and expertise, often through a directed program of board refreshment, which in turn modernizes the composition of boards over time. For instance, according to the 2017 Spencer Stuart Board Index<sup>1</sup>, 43% of S&P 500 incoming directors with previous board experience had served as CEOs compared to only 27% of first-time directors. An increasing number of today's first-time directors are instead joining boards with technology and private equity backgrounds. As boards continue to tap into new talent pools, most are also choosing to limit additional directorships for their board members. This demand for both diversity of skills and dedicated attention has become one of the main drivers of board refreshment.

Shareholders also drive board refreshment. The source of their scrutiny now extends beyond activists to include large institutional investors, many of which have called for public boards to diversify by adding women to their ranks. BlackRock, Vanguard Group and State Street have all issued public statements encouraging gender diversity on boards and promising action against boards that do not respond. Moreover, these investors have signaled action by backing shareholder proposals for board diversity<sup>2</sup>.

New corporate board members are getting older, on average, and more diverse, according to Spencer Stuart research<sup>1</sup>. The average age of an incoming S&P 500 director in 2017 was 63.1 years, up from 62.6 five years prior. This trend mirrored the one for first-time directors, whose average age grew from 53.4 to 55.2 years over the same period. First-time directors comprised 45% of incoming S&P 500 directors in 2017, an increase of 13 percentage points in five years. Women and ethnic minorities have also made inroads onto corporate boards. In 2017, 36% of incoming S&P 500 directors were women, up from 26% in 2012. This propelled the total prevalence of women directors in the Index to more than one in five (22%) compared to 16% in 2012. Meanwhile, 20% of incoming S&P 500 directors represented ethnic minorities in 2017, up from 15% one year earlier and from 12% five years prior. This annual increase exemplifies that boards are responding quickly to investor scrutiny of board composition.

## BOARD SKILLS, TURNOVER AND SHAREHOLDER ACTIVISM

The desire to diversify boards stems, in part, from the need to broaden the range of skills around the table. Maintaining a board skills matrix has become such common practice that in 2017, 18% of public large-cap companies disclosed theirs in their proxy statement<sup>3</sup>. Some of the most prevalent skills and experience disclosed were in finance, business development, technology, operations, international business, risk management and strategy.

In tandem with large institutional investor support for boardroom diversity, other shareholder groups with material stakeholder influence have voiced concern. For instance, the Boardroom Accountability Project, launched in 2014 by New York City Comptroller Scott Stringer and the NYC Pension Funds (version "2.0" was launched in 2017), has drawn attention to and engaged with hundreds of boards over the issues of proxy access and boardroom diversity, or lack thereof<sup>4</sup>. Similarly, influential shareholder advisory firms, Institutional Shareholder Services (ISS)<sup>5</sup> and Glass Lewis<sup>6</sup>, have released updated proxy voting guidelines for 2018 in an attempt to flag boards with poor gender diversity—an effort that may result in recommendations against directors serving nominating and governance committees in the future.

Changes in the demands placed on boards play a large role in refreshment, but boards also employ governance policies to ensure a baseline level of director turnover. In fact, 73% of S&P 500 boards disclosed a mandatory retirement age for directors in 2017—consistent with previous years—with the most typical retirement ages being 72 and 75 years<sup>1</sup>. Only 5% of S&P 500 boards maintain director term limits, while 65% explicitly state that no term limits are maintained. Of the boards that have imposed limits, those ranged from 10- to 20-year terms, with the most common term limit being 15 years.

### WOMEN & ETHNIC MINORITIES MAKING INROADS INTO S&P 500 BOARDROOMS

#### Incoming Directors (S&P 500)

2017

Women 36%

Ethnic Minorities 20%

2012

Women 26%

Ethnic Minorities 12%

#### Total Percentage Women Directors (S&P 500)

22%

16%

2017

2012

Source: 2017 Spencer Stuart Board Index





## ONBOARDING NEW DIRECTORS

The impetus for new board members to start contributing value early in their tenure drives effective boards to put onboarding near the top of the priority list. The logic goes that placing new directors in the best possible position to succeed ensures the board's overall strength as a representative body for the company and its shareholders. S&P 500 boards welcomed 397 new independent directors in 2017, the highest rate since 2004, of which a record-breaking 45% were first-time directors.<sup>1</sup> Now that corporate boards are onboarding more new and first-time directors with each passing year, a thoughtful and effective onboarding program has become a vital piece of governance.

## BEST PRACTICES IN DIRECTOR ONBOARDING

New directors and their boards must carefully navigate the initial period of board service in order to ensure a successful long-term engagement. As the role of corporate boards evolves, new directors should expect to contribute from the outset, not only in a traditional oversight capacity but also with the assessment and formulation of company strategy and the management of emerging risks. Modern boards seek directors with a sense of urgency to learn the business and an ability to contribute value from the start. The growing importance for new directors to add value in the short term also drives the need for a structured onboarding process, so that incoming board members are well positioned to make a positive contribution.

Effective onboarding is partly social and partly educational, and a strong onboarding process should, therefore, accommodate for both dialogue and interaction, in addition to more formal learning. The onboarding journey should begin during the recruitment process and continue through the initial year of board tenure. In pursuit of maximizing the impact of new directors, a number of onboarding best practices have emerged. Some of the most vital practices include:

- ✓ **Begin onboarding before the shareholder vote**  
Nominated candidates get a head start with early preparation
- ✓ **Conduct a board orientation**  
Orientation is not a substitute for onboarding, but a formalized orientation helps new directors acclimate
- ✓ **Consider customized onboarding**  
Molding onboarding to the candidate's specific needs can increase his/her effectiveness
- ✓ **Onboarding should be ongoing**  
Ensure someone owns the onboarding process and monitors progress
- ✓ **Assign a mentor to new directors**  
A mentor can help new directors navigate the boardroom and build trust with new colleagues
- ✓ **Meet and visit key team members and business sites**  
One-on-one meetings and on-site visits help new directors formulate assessments
- ✓ **Evaluate new director performance and solicit feedback**  
Both the owner of the onboarding process and the new director should provide feedback at predetermined check-ins
- ✓ **Provide continuing education and ongoing support**  
Onboarding is the beginning of a learning process that should continue through the life of board service

## OWNING THE ONBOARDING PROCESS

The owner of the director onboarding process varies from board to board but is often one of the following individuals: non-executive chair or independent lead director, chair of the nominating and governance committee or the corporate secretary. Aside from the owner's specific role on the board, the person should ensure that each new director progresses through every milestone in the onboarding process, provide all available resources to alleviate any headwinds for new directors and solicit feedback throughout.

Because corporate secretaries play a vital part in aligning company management and boards, they often help new directors schedule one-on-one meetings and on-site visits. New directors should also check in regularly with the CEO and lead director or non-executive chair throughout their first year of service. Regular meetings with senior management and board leaders foster the communication and trust that play such vital roles in the boardroom. While new directors join boards under differing circumstances, having a designated owner of the onboarding process ensures stability and consistency across time.

## THE PERSONAL SIDE OF ONBOARDING

Once the decision to join a board has been made, new directors will want to get their feet wet. A new board member will no doubt have ample briefs, memos, reports, minutes and filings to review but should, nevertheless, not ignore the importance of meeting with relevant board and management leaders. According to Spencer Stuart's survey<sup>1</sup>, 93% of respondents indicated that such meetings are integrated into their director onboarding process. The survey also reveals that:

- Nearly two-thirds of respondents included business on-site visits in their onboarding process
- During their first year of service, 14% of respondents were required to attend all board committee meetings

Scheduling meetings with senior management provides an opportunity to tailor the onboarding experience to each new board member. For example, a new director with experience managing cybersecurity risk could meet with the chief information security officer, while a new director joining the compensation committee will want to catch up on compensation philosophy and talent management needs with the head of human resources. This is also a good opportunity to schedule meetings with external advisers, such as auditors, compensation consultants and outside legal counsel.

New directors should also meet with fellow board members to prepare for the rigors of board service. In a 2018 survey of new Fortune 500 directors by Russell Reynolds Associates<sup>7</sup>, more than 80% of respondents said they had met one-on-one with at least one board member prior to their first meeting, and nearly three-quarters indicated they met with a committee chair during their onboarding process.

New corporate directors are assured to meet a lineup of company leaders on the way to the boardroom, but perhaps most importantly, a majority of them are also assigned a mentor as a guide through formative times. In fact, 94% of respondents to the Russell Reynolds Associates' survey<sup>7</sup> indicated that a board mentor had been formally appointed to them. Perhaps even more so than other aspects of the onboarding process, mentors help grease the skids for new directors by functioning as a trusted guide during initial forays into board and company culture. Moreover, mentors can take the feedback of new directors to the board, ensuring a healthy onboarding ecosystem that improves over time.



## CONTINUING BOARD EDUCATION

Be it a first-time board member or tenured veteran, all directors face the challenge of staying current amid continuous geopolitical, economic, industry and corporate governance developments. Commitment by directors to remain engaged and educated helps focus attention on important factors in the governance landscape. In a 2017 survey by Spencer Stuart<sup>1</sup>, nearly one-quarter of respondents indicated that new directors participated in continuing education programs provided by third parties.

### Here are some continuing education best practices that boards have implemented:

- Foster a culture of learning to encourage directors to stay current and effective
- Carve out a budget for in-person and online director education forums, training and webinars
- Curate a list of news and industry sources to monitor for relevant developments
- Build strong relationships with company management and engage in regular dialogue about developments relevant to company business
- Engage strategic partners to maximize board performance

## REVIEW BEFORE YOU BEGIN

New directors should expect a reasonable volume of reading material to accompany a fresh board appointment. Corporate board members, even those newly added to the mix, serve themselves and their boards best by remaining apprised of compliance and risk management controls, financial and operating conditions, corporate governance structure and practices, and analyses by external advisers. Given the amount of information board members are tasked with learning and utilizing, here are some recommendations for resources that new directors should read and have at the ready:



- The company's strategic (near- and long-term) plan and mission statement
- Company organization chart (Include biographies for key management and board appointees)
- The board's CEO succession plan
- Corporate by-laws and governance guidelines
- Committee charters and reports
- Audit (internal and external) reports
- Financial statements
- Board and committee meeting minutes
- Company press releases
- Stock analyst reports, earnings releases and earnings' call materials
- Relevant SEC filings (Forms 8-K, 10-Q, and 10-K, and proxy statements)
- Board performance evaluations
- Communications from activist or institutional shareholders
- Updates on compliance, investigations and pending litigation
- Brief on company's director and officer liability insurance coverage

By reviewing all the information at their disposal, boards increase the likelihood that even freshly minted directors can serve company stakeholders from the outset.

## ONBOARDING NEW COMMITTEE MEMBERS

For directors who join committees in their first year of board service, the onboarding process does not stop at the board level. Speedy uptake of the details relevant to committee decisions should begin in discussions with board leaders during general onboarding when new directors need to learn the role of each committee, their leadership and composition and any foreseeable challenges or opportunities facing them in the upcoming year.

Whether or not a board chooses to allow new directors to join committees from the outset—the majority does<sup>8</sup>—director education programs for onboarding committee members and new chairs can provide a leg up while new directors acclimate. Incoming committee members should receive a thorough orientation that includes an introduction to the committee's charter and operating principles. Other practices that may be useful for effective onboarding include requirements for new directors to attend all board committee meetings during the first year of service and/or serve on the audit committee for their inaugural year<sup>9</sup>.

New committee members should receive and review any materials presented to and discussed by the committee during the past year in addition to minutes from recent meetings, but the role of the board mentor shouldn't be downplayed in the context of committee orientation either. Board mentors are especially vital for first-time directors since they are new to board and committee procedures and culture.

## ONBOARDING PRINCIPLES IN PRACTICE: COMMITTEE ROTATION

While the majority of new directors will join a board committee relevant to their experience, expertise or a board-specific need, most tenured directors serve on multiple committees over the life of their board service. A number of key insights centered on committee member rotation have emerged:

- Most boards have not adopted a formal policy to rotate directors between committees. This is likely due to a need for baseline continuity and the importance of having directors with specialty knowledge on certain committees, such as audit or compensation<sup>8</sup>.
- Though formal rotation policies are uncommon, it is recommended that committee members change roles every three to five years, ensuring that the onboarding process remains ongoing and that directors continue to expand their knowledge base<sup>10</sup>.
- Even informal committee rotation systems ensure fresh perspectives without losing sight of the specialty skills needed for committee work.



## COMMITTEES IN FOCUS

The audit and compensation committees oversee board practices and decisions particularly exposed to regulatory and compliance matters. Boards onboarding new members to these committees are advised to take a thorough approach.

### ONE-ON-ONE MEETINGS

In addition to senior management and board leadership, new committee members should meet with...

#### AUDIT

Committee chair, finance leadership, internal and external audit

#### COMPENSATION

Committee chair, human resources leadership and compensation consultants

#### NOMINATING/GOVERNANCE

Committee chair and general counsel or corporate secretary

### KEY ORIENTATION TOPICS

In addition to reviewing committee charters, meeting agendas and committee self-assessments, new committee members should be briefed on...

#### AUDIT

Financial reporting policies and practices, risk management process and compliance program

#### COMPENSATION

Compensation philosophy and program, executive compensation and shareholder communication strategy

#### NOMINATING/GOVERNANCE

Board composition, succession planning strategy and investor feedback

### EMERGENT ISSUES FOR COMMITTEE MEMBERS

#### AUDIT

- **Cybersecurity** - If the audit committee has cybersecurity oversight responsibilities, extensive collaboration with the company's chief information security officer and external consultants will be necessary.
- **ESG** - Investor scrutiny on non-financial risks, such as sustainability and climate change, requires audit committee oversight and attention on disclosures.

#### COMPENSATION

- **Employee retention** - Tight labor markets necessitate special attention.
- **Pay and performance alignment** - Investors focus on executive compensation continues to view pay in light of company and market performance.
- **Pay equity** - The CEO pay ratio rule and emergence of gender pay equity as a governance issue has placed renewed focus on broader-based pay practices.

#### NOMINATING/GOVERNANCE

- **Board composition** - Viewed as a strategic asset by investors, some boards are now disclosing a skills matrix to highlight individual director skills and qualifications.
- **Board performance disclosure** - Pressure from institutional investors calling for greater transparency into how boards are addressing their own performance may lead to more boards adopting enhanced performance disclosures.

### ENDNOTES

- 1 Spencer Stuart, 2017 U.S. Board Index  
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- 8 Spencer Stuart, How to Rotate Committee Jobs, 2007  
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- 10 Society for Corporate Governance, Board Practices: Board Committee Chair/Member Rotation, 2017  
<https://connect.societycorp.gov.org/blogs/randi-morrison/2017/05/18/board-practices-board-committee-chairmember-rotation>



## FOR MORE INFORMATION

This guide was created for Corporate Board Member's Board Leadership Program, the leading education program for public company boards. The Board Leadership Program provides directors and executives with access to an all-inclusive, flexible education solution with options to fit every director's schedule and requirements. Through a unique mix of online training, peer-driven events and thought leadership resources, members are armed with the tools they need to deal with the corporate governance hurdles confronting public companies today. Learn more at: [www.BoardMember.com/BLP](http://www.BoardMember.com/BLP)

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