

# Amassing your governance capital

*Getting on a corporate board is about who you know (network), how you conduct yourself (character), and what you bring to the table (expertise). Exercising leadership on nonprofit boards is a winning start to the process.* **BY ALICE KORNGOLD**

**D**ENISE O'LEARY's first governing experience was serving on the board of the YWCA of San Francisco, which she joined in 1985. Twenty-five years later, O'Leary, 49, serves on the boards of US Airways and other major publicly traded companies. At the same time that she was advancing as a highly accomplished venture capitalist, she was also amassing her governance capital.

Today it is harder than ever to meet the demand for top-quality corporate board members. Executive recruiters have databases filled with people who have the business expertise to serve on public boards. Yet the recruiters will recommend only those candidates with personal references by high-level corporate peers who have observed their performance in strenuous decision-making group dynamics. Recruiters describe this process as "establishing character."

It is more difficult to identify public board candidates now that Fortune 500 CEOs have been asked by their own directors to cut back on outside boards. Yet another limiting factor is the compensation for board service. The remuneration is not significant enough to attract high-net-worth candidates unless they actually find board service otherwise compelling. Fear of personal liability also dissuades potential directors. All told, the traditional supply of candidates has constricted.

These conditions suggest that boards and recruiters need new solutions to find excellent candidates other than the usual suspects. At the same time, in today's world of ethics and accountability, it is necessary to ramp up the expecta-

tions of board members. Scrutiny of candidates who are considered for boards has increased, not diminished.

## A fresh opportunity

The need for quality candidates presents a fresh opportunity for the coming cohort of high-potential individuals. For businesspeople who seek to serve on corporate boards, the best way to develop and prepare themselves is to serve on nonprofit boards as early in their careers as possible, and to strive to make those boards better by learning and introducing best governing practices. Then, they can move up on the nonprofit board trajectory to learn, develop, contribute, and become recognized, while they are also doing good. Service on a nonprofit board is an important, if not essential, means to develop the skills, judgment, and experience for corporate board service; these skills enhance one's business acumen as well.

Denise O'Leary is a case in point. She ultimately became a member of the US Airways board primarily because of her business accomplishments. She has a B.S. in industrial engineering from Stanford and an M.B.A. from Harvard.

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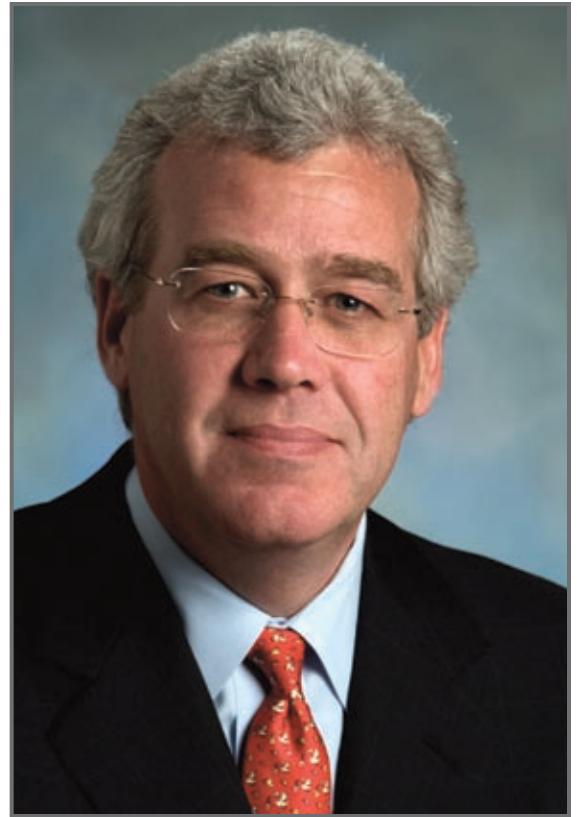


**Paul Lovejoy** of United Airlines says the board wants directors “who have deep relationships in the communities where we are based.”

She was a general partner with Menlo Ventures, a venture capital firm, from 1983 to 1997.

O’Leary paid her dues on nonprofit boards through hard work and leadership roles. She became chair of the finance committee of the YWCA of San Francisco and a member of the executive committee. Then, in the mid-1980s, in the midst of the shareholder pressure on divestment in South Africa, she was asked to serve on a small committee formed to advise the board of trustees of Stanford University regarding endowment investments in companies doing business in South Africa. She eventually chaired this committee, which prompted a board colleague to ask her to run for election as an alumni trustee. In 1990, she was elected to the Stanford University board. Later, she also chaired the board of the Stanford Hospital and Clinics.

While O’Leary was serving on the Stanford board, a fellow board member recruited her to serve on the Alza Corp. board. Alza develops pharmaceutical products and is now part of Johnson & Johnson. Alza was her first large publicly traded board. From there, she was asked to serve on the boards of Chiron, Del Monte, Medtronic, and America West Airlines (which merged with US Airways when it emerged from bankruptcy in 2005). She recently accepted the (nonprofit) board chair position of Corporation for Supportive Housing, a national



organization with proven strategies for reducing homelessness.

O’Leary is a compelling example of a high-potential candidate who typically would not be found in a recruiter’s CEO-centric database for public boards. Yet she surely had supreme qualifications in terms of her business expertise. By serving on nonprofit boards, she gained critical leadership experience and governance capital. Just as important, by serving nonprofits she signaled to others that she was qualified, ambitious, and a perfect candidate for a public board.

### **An ultimate experience**

Businesspeople who serve on nonprofit boards gain a better understanding of the environment in which their own companies operate and what goes on in a boardroom. Whether or not your nonprofit board experience leads you to a corporate board, you will develop new skills and bring fresh insights to your work environment. Nonprofit board service is the ultimate experience in ethics, accountability, leadership, group dynamics, and crisis management and communications.

• **Skills.** On a nonprofit board, you will work with others to develop the organization’s greater vision, revenue model, and case for support. Leslie Rahl, president of Capital Market Risk Advisors, points out that “you deal with matters of ethics that transcend what you learned in business school. You

## **The value of nonprofit board service**

1. Build personal, professional, and community networks.
2. Develop expertise on an important issue (e.g., education, health care, the environment, the arts).
3. Develop leadership skills by accepting responsibility.
4. Learn about board governance, ethics, and accountability.
5. Participate in developing an organizational vision, revenue model, and plan to achieve success.
6. Participate in the leadership group of an organization during crisis management and communications.
7. Gain credibility among peers.
8. Build your governance capital.
9. Make a meaningful contribution to the community.

—Alice Korngold

learn the dynamics of being part of a team of peers, of knowing when to defer to others, especially in situations where you are also ultimately responsible and accountable.”

Rahl was asked to join the board of Fannie Mae in 2004. Her firm specializes in risk management, hedge funds, financial forensics, and derivatives, and she has authored books on hedge funds. She has an undergraduate degree from MIT and an M.B.A. from MIT’s Sloan School.

Clearly, her business expertise qualified her to serve on the Fannie Mae board, but it was her nonprofit board experience that distinguished and elevated her as a candidate. “When they were interviewing me for the position,” she explains, “the Fannie Mae board members spent a great deal of time asking me about my work on the board of 100 Women in Hedge Funds and my experience in chairing its philanthropy committee in particular.” She adds, “Once I was identified for the Fannie Mae board, and my business qualifications were clear, my having served on a nonprofit board was definitely considered a plus.”

Business background may open the door, but leadership experience gets you into the boardroom. Rahl was recently elected to the board of CIBC, a leading North American financial institution.

• **Visibility and Credibility.** In addition to developing skills, nonprofit board service signals your abilities to others, raising your visibility as a strong board candidate. David A. Daberko, chairman and CEO of National City Corp. (ranked 213 on the Fortune 500), exemplifies this point. He has recommended corporate board candidates whom he has met through nonprofit boards. Daberko comments that nonprofit board members have the opportunity to observe each other perform, often in strenuous circumstances — especially on the boards of major medical centers and economic development institutions. The people who stand out are the ones “who can see the forest for the trees ... we want people on public boards who can discern what really matters.”

Stephen P. Mader, managing director of the board services practice for Korn/Ferry, attests to the importance that corporate boards place on vetting candidates based on assessments by peers. He notes that a reference will “carry weight if it is based on direct observations of a candidate’s prior boardroom behavior, whether it is in the nonprofit or for-profit setting. Such information can be valuable in establishing the candidate’s character and leadership style.”

• **Adding Value.** Smart candidates accept non-



**Chattem Inc. director Ruth Brinkley came to the CEO’s attention through her community leadership activities.**

profit and for-profit board positions based on their determination of whether they can add value. Martha Clark Goss serves on a number of publicly traded boards. She was the chief financial officer of Booz-Allen & Hamilton and a senior vice president of Prudential Insurance Co., where she also served as president of Prudential Asset Management Co. Goss talks about the importance of rebalancing her board portfolio from time to time, based on an assessment of where she is making a useful contribution and where she herself is challenged and developing.

“Get involved in addressing the organization’s key strategic issues by joining and perhaps even chairing the board’s strategic planning committee, because strategic acumen and leadership abilities are valued in the business world,” advises Susan R. Nowakowski, president and CEO of AMN Health-

care Services Inc., the largest health care staffing company in the U.S. She serves on the board of Playtex Products Inc. and on such nonprofit boards as the University of California, San Diego Sulpizio Family Cardiovascular Center.

Craig Medwick, managing partner, Clifford Chance US LLP, encourages the firm's partners to

serve on nonprofit boards, especially where they will have opportunities to make meaningful contributions and exercise their leadership potential. He explains that “we want to see our attorneys develop personally and professionally, while effectively using their time and the firm's pro bono resources to better the community. This is a win-win-win.”

• **Leadership.** In order to distinguish yourself while also developing yourself, the

best thing you can do is to get onto a nonprofit board and make it better. Madeleine Condit, senior client partner, Korn/Ferry, says that becoming recognized through your nonprofit board service is not automatic. Her advice is to “assume leadership responsibility, follow through on your com-

mitments, and handle your interactions with diplomacy, especially in how you relate to the CEO of the organization.”

Natural-born leaders think like venture capitalists when choosing the nonprofit boards they will join. They pick an organization with serious substance and greater opportunity than it has realized. They are willing to put the effort and resources in helping to galvanize a team of board members who will lead the organization in achieving its greater vision. These high-achieving types seek high rewards on their investments in terms of serving the community.

Nick Williams, a mergers and acquisitions partner at Clifford Chance, followed such a path. He recently accepted a position on the board of Art Beyond Sight (ABS) in New York City. As past president and current director of Columbia Law School Alumni Association and a Phi Beta Kappa graduate from Brown University, Williams had abundant invitations to serve on nonprofit boards. He accepted the ABS board because of its global vision and potential. ABS's founder and president and the executive team developed a well-proven methodology to teach art museums how to make art accessible to the visually impaired. ABS will require new leadership from a revitalized board of directors to expand its reach to help museums worldwide to serve tens of thousands of new visitors. This is a challenge and mission that Williams relishes.

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## Improving your nonprofit board

**Once you're on** a nonprofit board, this is your chance to make a serious contribution by helping to improve board governance practices. Here is some advice:

**1.** Learn and understand the organization, its mission, and the environment in which it operates. Get to know the CEO; usually the CEO has expertise in the field and is devoted to the organization and its purpose. (If you learn otherwise, through careful observation and assessment, that is another matter.)

**2.** Get to know other board members. Observe the board dynamic — who has influence, and who is effective.

**3.** Learn about good nonprofit board practices by reading a couple of books.

**4.** As you get to know the CEO and other board

members, begin suggesting that the board

- Discuss the role of the board and its responsibilities

- Discuss the mission of the organization and determine and possibly update its relevance in the current environment

- Discuss and imagine the organization's greater potential — a vision of the organization and how it can increase its value in serving the community in the coming years — and, most importantly, the revenue model and sources that will ensure that the vision can be accomplished

- Discuss how board members can actively participate in increasing organizational revenues — whether that means realigning fees for services for greater financial sustainability, enhancing government relations to increase government grants, or raising corporate, foundation, or personal philanthropy. Additionally, every board member

should make a personal contribution to his or her maximum ability.

- Focus board meetings on key strategic issues in terms of achieving the vision, the revenues needed, and what the board is doing to help

- Identify and recruit board members with the vision, commitment, and expertise that will ensure organizational success

**5.** Be willing to step up and lead!

**6.** Help recruit other board members who will bring valuable expertise and relationships.

**7.** Be personally generous and ask others for money.

**8.** Be a knowledgeable and compelling advocate for the organization and its mission.

— Alice Korngold

Marsh & McLennan CEO **Michael Cherkasky** says it would be the rare candidate who would “be considered for a position on a public board who is not serving in a serious capacity on a charitable board.”



Such nonprofit board leaders are not naïve about the value of the relationships that come from service. But, fundamentally, these individuals are fully committed to investing their time and resources to achieving the greater good. They are developing their governance capital.

• **Your Board Career.** According to Theodore L. Dysart, who leads Heidrick & Struggles’ Global Board of Directors Practice for the Americas, one can almost envision a governance career ladder through which one develops experience and credibility “through nonprofit boards, then small-cap companies, then mid-cap companies, and then on the larger public boards.” As noted in the examples in this article, successful people have parallel paths along the nonprofit and for-profit board paths, building their governance capital and leadership potential through both venues.

### Community ties: The added value

Businesspeople who have held serious nonprofit board positions with significant organizations addressing the environment, economic development, the arts, health care, education, labor, and other leading social issues can offer useful expertise to corporate board discussions.

People who have served on nonprofit boards also bring important networks to the corporate boards on which they serve. These relationships include ties with the community, government, other businesses, and institutions in health, education, culture, and social services. These networks enhance the corporation’s ability to develop opportunities with customers and key constituents,

achieve financing for major projects, and weather crises. Nonprofit board service is valued by companies whether they are local or global.

Bob Jones, president of Old National Bank, serving Indiana, Illinois, and Kentucky, attests to the importance of having board members who are respected for their integrity and engagement. Jones

## Choosing a nonprofit board

1. Choose a mission you care about. You will be effective only if you care.
2. Visit the organization’s site. Get a feel for the organization.
3. Meet the CEO and at least one board leader, preferably the board chair.
4. Assess the financial situation. The budget basics, especially revenue opportunities and financial threats, will tell you what needs the board’s attention.
5. Ask to see the most recent audit and management letter, board minutes, board member list, budget, strategic plan (if there is one), and any organizational literature.
6. Understand the organization’s expectations of you, especially in terms of giving and raising money and attending meetings.
7. Understand that an effective nonprofit CEO is key to your having a productive and positive board experience; an effective board chair is also very important.
8. Decide if you can make the time commitment.
9. Determine if you can be useful and make a difference.
10. Do not necessarily reject the organization because things are not all in order. That is why they need you! Just go in with your eyes wide open.

— Alice Korngold



**Denise O'Leary was recruited to the Alza board by a fellow Stanford University board colleague.**

indicates that board members surface through the people that he and his directors meet on community nonprofit boards. Such board members “help our company to be strategic in serving the community and also serve as goodwill ambassadors of the bank.”

Ruth W. Brinkley, president and CEO of Memorial Health Care System in Chattanooga, Tenn., serves on the board of Chattem Inc. A Nasdaq-traded company also based in Chattanooga, Chattem manufactures and sells health and beauty products, toiletries, proprietary drugs, and dietary supplements. The CEO of Chattem, who knew Brinkley

from her leadership role in the community, invited her to serve on the company’s board as much for her stature and reputation as for her business experience and industry expertise.

Community ties are highly valued by global companies as well. Paul Lovejoy, senior vice president and general counsel of United Airlines, notes that board members’ ties to the community are important in fostering communications with local government and building corporate customer relationships. “Our company’s board seeks candidates with the necessary background in business, technology, marketing, and manufacturing, but we also want people who have deep relationships in the communities where we are based,” he says.

**No guarantees**

While there are no guarantees that you will move from the nonprofit boardroom to a public company boardroom, a quick glance at any leading newspaper will reveal that leaders in business are also leaders in the community. Although Michael G. Cherkasky, president and CEO of Marsh & McLennan Companies Inc., says his board does not formally screen for nonprofit board experience, the fact is that every member of his board has held significant nonprofit board positions. “It would be most unusual,” he states, “for someone to be considered for a position on a public board who is not serving in a serious capacity on a charitable board.”

Corporate board service is as much about commitment, character, and integrity as it is about expertise. The best nonprofit board directors have been tested and tried in nonprofit boardrooms, functioned well under duress in the group dynamic, and stepped up to leadership as volunteers in the community’s interest. They have taken responsibility for envisioning the greater potential for a nonprofit institution and its revenue model and diplomatically orchestrated a group of talented and accomplished people to achieve success. Who better to tap to serve on the world’s corporate boards of directors? ■

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