The Downside of Prestige

Negative consequences can ensue when boards of directors seek to add prestigious members. Experts say it?s yet another reason for HR leaders to serve as boards? trusted advisers.

By Andrew R. McIlvaine

Everyone wants a trophy and, when it comes to boards of directors, a trophy often comes in the form of a new member with a very prestigious pedigree, whether it?s based on an illustrious business career or -- particularly in the case of nonprofits -- tremendous fundraising prowess.

However, there can be unintended consequences when a recruit who looks stellar on paper turns out to have a style and personality akin to fingernails on a chalkboard. A forthcoming study by two Penn State researchers finds that adding prestigious directors can have unintended consequences that outweigh the benefits.

"All too often we get blinded by someone who has great credentials and forget to determine whether they can actually work and play well with others," says Tim Pollock, the Farrell Professor of Entrepreneurship at Penn State?s Smeal College of Business and co-author of the study.

The study, titled *Shoot for the Stars? Predicting the Recruitment of Prestigious Directors at Newly Public Firms*, is based on data from more than 200 companies over the course of five years following those firms? IPOs. The researchers uncovered some interesting group-dynamic trends within those boards.

"Prestigious directors are more likely than non-prestigious directors to assert themselves in ways that disrupt the current within-group status order and threaten others? power and discretion," the researchers wrote.

The research was focused on post-IPO firms because boards tend to be at the height of their influence at such companies within the five-year period following the IPO, says Pollock. However, boards at larger, more-established organizations can be just as susceptible to the sort of disruptive group dynamics that can damage the organizations they oversee, he says.

"You can find the same thing happening at large corporations, particularly in the wake of a merger of equals, when you?re integrating the boards of two established companies," says Pollock. "This same kind of stuff can play out."

Some boards are less-susceptible to disruptions caused by new members, particularly those in which the directors have served together for a long time, he says.

"It was neat to see how tenure really has a significant influence on how board members interpret a prestigious new director as either an opportunity or a threat," says Pollock. "The idea that you have to consider these dynamics and that they can have negative or unintended consequences is, I think, something that?s gone largely unconsidered."

The allure of prestigious directors is easy to understand, says Paul Mandell, CEO of Bethesda, Md.-based business-advisory firm the Consero Group.

"[At] public companies, prestige can be very important to foster investor confidence," he says. "But in the cases where you?ve got a prestige board member who isn?t being well-received by the rest of the board, there?s an important role for HR to play in the post-appointment process."

The study?s findings ring true for Eugenie Dieck, a partner in Mercer?s talent-consulting practice who works closely with boards of directors in the nonprofit sector. Those boards, in particular, can be susceptible to disruptions caused by "prestige" directors who may feel their financial contributions to the organization give them license to dominate meetings.

"They find themselves in messy situations where they want someone?s wisdom but not their personality," she says.

Such problems can be avoided when HR works closely with a board?s nominating and governance committee, says Dieck. An HR leader can help the head of the committee define the skills and competencies needed by the board and ensure there?s a disciplined process in place for evaluating potential members, she says.

Boards are also becoming more candid in articulating the types of behaviors they expect from members -- a task HR is uniquely qualified to assist with, says Dieck.

"They?re being more upfront in how they expect members to comport themselves, and I think an HR leader can be very helpful in that he or she is frequently well-versed in the component of leadership competencies and can speak about the behavioral competencies of board members," she says.

In addition, a good practice is to have board members evaluate the board itself as well as individual members, and use those reviews as the basis for conversations about how to do things better, she says.

"The reviews can serve as the basis for substantive conversations around needed improvements and how individual members can be more effective," says Dieck. "It?s about encouraging members to be mindful about how they?re contributing to the board."

Boards can?t afford to be shortsighted in who they recruit to join the team, says Pollock.

"I would say focus on the person and not the credentials," he says. "If we want our directors to provide real value and not just serve as cops, then we?ve got to take these group dynamics more seriously."

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