BOARD SUCCESSION PLANNING

"To pro-actively work with our Board Succession applying a long-term perspective has helped us to be well prepared in supporting the strategic agenda of the company and to well handle unforeseen events."

- Chair,
  Larger Global Industrial Group

Replacing board members can be a complicated process. In addition to considering the competencies of the outgoing director and their potential replacements, nominating committees must consider things like expertise, skills, diversity profiles and career backgrounds of current directors, as well as the forward-looking requirements of the company's strategy and the complex mix of variables that contribute to board culture. Getting all this right takes time, effort and foresight. Unfortunately, however, far too many boards leave succession planning questions unanswered until the problems of succession are upon them.

WHY BE PROACTIVE ABOUT BOARD SUCCESSION

Boards with inadequate succession plans are reactive, addressing succession only when a director's departure is imminent. This often results in rushed decisions and missed opportunities to enhance board diversity and skills. Without systematic performance assessments or alignment with strategic challenges, nominating committees may lack a clear understanding of the new director's needed competencies. Pressed for time, they often choose candidates resembling the outgoing director, missing chances to fill skill gaps or realign board competencies.

Proactive boards, however, integrate succession planning into their regular agenda. They value self-awareness and improvement, constantly analyzing directors' contributions and expertise. They conduct board-wide skills assessments and consult third-party experts to align competencies with future business risks. These boards have systems to improve underperforming directors, including coaching services, and established expectations about board tenure. They know when directors plan to retire and can identify replacements years in advance.

Succession planning for proactive boards is a continuous process. The nominating and governance committee maintains a pipeline of qualified candidates, viewing turnover as an opportunity to enhance board composition and align with strategic goals. This proactive approach ensures the board remains effective and prepared for future challenges.

Consider the following four reasons to create a comprehensive board succession plan:

1. Continuous Evaluation and Improvement: Proactive boards use skills matrices to assess expertise, contributions, and diversity, aligning them with the company's strategy. They formalize performance assessments to inform education, coaching, committee structures, and recruitment goals.

2. Alignment with Strategy and Risk Minimization: An assessment-driven succession plan turns board turnover into an improvement tool, realigning expertise with strategy. Companies with formal, routine succession planning processes gain investor confidence by preparing for unplanned retirements and maintaining a pipeline of candidates.

3. Diversity Alignment with Strategic Goals: Research shows diverse boards have more insightful conversations and outperform competitors. Institutional shareholders actively demand gender diversity, and proactive boards consider diversity in the refreshment process, reaping the benefits of a dynamic boardroom.

4. Mitigating Underperformance Risks: Many directors believe board composition and performance could improve. A long-term succession plan formalizes underperformance measurement, offering coaching and justifying replacements when necessary. Consistent reviews help improve contributions and align the board with strategic needs.

HOW TO BUILD A BOARD SUCCESSION PLAN

Even when boards acknowledge that it's a good idea to formalize a strategic succession process, the act of doing so can be daunting. Here are five steps you'll need to take to build an institutionalized board succession plan:

Step One: Get Everyone on Board

Successful board succession plans involve assessing competencies, which can face pushback from directors. To gain their support, give them ownership of the process. Collaborative discussions and input from stakeholders, along with specialized board consultants, can provide unbiased diagnoses and new perspectives.

Step Two: Institutionalize the Plan and Process

Succession plans are ongoing processes, not one-time documents. To maintain momentum:

- Assign responsibility for the plan's creation, maintenance, and development.
- Include the plan in the agenda of each quarterly meeting.
- Ensure all directors understand that board refreshment is a fundamental part of their role.

Step Three: Gap Analysis

Identify the competencies needed to support the company's strategies and measure the gap between these and current competencies. Conduct assessments to map qualifications, define performance gaps, and determine needed skills and diversity profiles. Use skills, tenure, and experience matrices to evaluate directors and analyze gaps.

Step Four: Act on the Gaps

Assessments reveal gaps between current and needed competencies. Address these through director refreshment or development initiatives. Effective implementation of assessment results is crucial for real change.

Step Five: Build a Pipeline

Develop a pipeline of qualified candidates using skills matrices and competency assessments. Regularly update this pipeline to prepare for both short- and long-term succession needs. Identify candidates for immediate vacancies and maintain a list of high-potential candidates for future roles.

RECRUIT THE RIGHT BOARD MEMBERS

Corporate boards are dynamic entities. When longstanding directors leave, new directors bring fresh ideas and energy. A well-managed succession plan turns board turnover into an asset, allowing continuous adjustment of board composition to optimize oversight, crisis management, and strategic planning while minimizing risks from unexpected departures.

Recruiting new non-executive directors involves several key factors:

- Significant contributions to strategy, operations, and oversight.
- New perspectives from diverse expertise, experience, gender, age, and ethnicity.
- Curiosity and commitment to deepening knowledge of the company and evolving risks.
- Skepticism and the ability to challenge assumptions constructively.
- Offering counsel and influence through questions and advice.
- Team orientation and respect for differing views.
- High moral standards, professionalism, integrity, and ethics.

This approach ensures the board remains effective and aligned with strategic goals.

Expertise

Directors should bring strategic perspectives to the boardroom, but many boards overemphasize financial, compliance, audit, and oversight expertise. Research shows lower-functioning boards spend too much time on these tasks (28% on financial review, 13% on compliance, 11% on audit), while high-performing boards focus more on strategic and operational objectives (11%, 6%, and 3%, respectively). Boards should prioritize strategy mapping and executive team coaching over detailed reviews.

Mindset

Successful directors share certain traits despite varied backgrounds:

- Collaboration: High-performing directors explain their views and consider others' perspectives, counteracting blind spots.
- Social Savvy: Directors gauge personalities and tailor advice to different individuals, using Socratic or concrete guidance as needed.
- Hardworking and Skeptical: Effective Directors base decisions on data, developing a thorough understanding before committing.
- Big Picture Thinking: Directors balance long-term strategy with present realities, translating ideas into actionable plans.

Previous Board Experience vs. Freshmen Directors

Experienced directors offer strong short-term results, knowing board functions and expectations. First-time directors learn these over time, making previous board experience less critical than skill set, mindset, age, and diversity. Mentorship and education programs can help new directors adapt quickly.

Time Commitment

First-time directors often underestimate the time required. High-performing non-executive directors spend 200 hours and 20-30 days per year on board work, excluding travel. During crises, time commitments increase. Candidates must be evaluated for their ability to devote adequate time, considering their long-term service of six to nine years and potential career developments.

CONCLUSION

Succession plans minimize the risks from unexpected turnover while maximizing the opportunities associated with fresh talent; they help formalize the company's commitments to its diversity goals; they help define and measure individual director performance, which can lead to fruitful development initiatives; and they give the board's nominating committee a clear-eyed understanding of individual director performance and board-wide competency needs, which helps them create candidate profiles, build extensive pipelines of potential new directors, and generally ensure the board's ongoing alignment with the company's evolving strategic goals. In short, a strategic board succession process is crucial to the success of the modern board.

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