

# AGENDA

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*Opinion*

## Boards Need More Strategic Approach to Director Succession

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The traditional approach of filling board seats as they become available must give way to a more deliberate, longer-term perspective on board composition. A well-defined, long-term strategy helps the board give director succession planning the sustained, focused attention that it needs. It can also yield the considerable benefits that come from having the right directors around the boardroom table.

The average board seat turns over only once about every 12 years, making it difficult for nominating committees to maintain a strategic perspective on the process. This is reinforced by the current trend of raising mandatory retirement ages among some boards, including cases where directors retire at age 75. Slow turnover and rising retirement ages increase the risk that the board can become dangerously out of step with the organization's business strategy and operating environment.

At the same time, boards face greater pressure to become more global, as the complexities and speed of business are increasing the scrutiny on board composition. Indeed, shareholder activism, cyber security and regulatory change are now increasingly on board agendas, in ways they never were before.

These trends require nominating committees to look holistically at the expertise required on the board, and devise an ongoing strategic approach to director succession planning. While most boards understand the need for such an approach, in practice it is easy to revert to the traditional ad hoc method of filling director seats as they open up because board vacancies occur so sporadically.

Despite these challenges, boards should take the same strategic approach to director succession that they take for CEO succession. Based on our work with forward-thinking boards, we can identify four preferred practices:

**Insist on a rigorous board evaluation.** Board evaluations can be a powerful way to improve governance, but they must be objective, thorough and specific. First, directors should look at operational and performance issues such as how meetings are conducted, agendas are set, and committees function. Next, board evaluations should also measure each director against a list of the competencies and experiences deemed necessary now and for the reasonably conceivable future. The resulting matrix illustrates how the board's intellectual assets are distributed across the directors, showing where the gaps are and which needs will arise as directors rotate off boards.

**Learn to adapt to changing requirements.** Directors must maintain their focus on overall board composition and evolving needs, rather than simply filling a particular opening. As a result, the nominating committee should have a gap analysis of the board's competencies and an understanding of how needs can change over time. By

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looking at all gaps and all scheduled vacancies together, the nominating committee has the flexibility to choose which gap to fill based on the best available director talent at any given time.

**Cultivate potential candidates far in advance.** The most effective boards establish a clear picture of the skills and expertise the board needs and when they will most need them. They also are proactive in recruiting directors. Overall, nominating committees should develop relationships with potential candidates well in advance, including high-potential candidates who are not quite ready or executives who cannot serve now but who will be available in the future. This puts the board ahead of the game in the race for boardroom talent and gives it more time to identify future directors before they join, helping with the onboarding process.

**Develop a clear succession planning playbook.** The same elements that apply to CEO succession can be applied to director succession. For example, boards should check whether their own replacement efforts reflect key components of the management succession process, including an ongoing place on the board agenda, a structured approach for evaluating the talent pipeline and assigning responsibility, and accountability for leading the initiative.

In the end, the traditional approach of filling seats as they become available must give way to a more deliberate, longer-term perspective on board composition. A well-defined, long-term strategy helps the board give succession planning the sustained, focused attention that it needs. It can also yield the considerable benefits that come from having the right directors around the boardroom table.

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