

Long-Term Board Succession Planning Emerging as a Best Practice

By Dennis Carey and Robert Hallagan

The world is moving at lightning pace—globalization, innovation, disruptive technologies, and the pressure on boards to reinvent themselves—has accelerated from the investor community. It has always been an honor to be elected a director, but with heightened expectations and responsibilities, directorship is now also recognized as a serious profession.

Elite boards have raised the bar and established a vision and objective to be a strategic asset and a source of long-term competitive advantage. It is a high bar, which requires an engaged and relentless culture of continuous improvement and a clear view of all the characteristics of high-performing boards, that is, those established in the NACD Center for Board Leadership's *Report of the Blue Ribbon Commission on Board Evaluations*.

An Emerging Best Practice

One important element of the framework is “the right people at the right time.” The key principle is that there should be a constant and continuous alignment of the skills and competencies on the board to the board's most challenging strategic issues, toughest decisions, and major risks. And, importantly, just as the strategy is geared to the future, the people and skills the board seeks should dovetail with that vision, not necessarily with what was required on past boards.

When we were able to push the “re-set” button and rebuild boards for Lehman Bros. and Delphi as they emerged from bankruptcies, a major upfront effort was undertaken to identify all these major issues and detail the successful leadership backgrounds that would be “strategic assets to the company.” All candidates had a “history of making good decisions” but also had an area of expertise where their related skills and networks would be of specific value.

Except in cases such as carve-outs, IPOs, or companies emerging from bankruptcies, it would not be good practice to be constantly re-setting the board every time there was a major change in the industry. Longer-term board succession planning, however, is a best practice Korn Ferry is managing for many of its clients and is much like CEO succession planning.

In the CEO Succession Practice, our best advice is to start early to ensure a seamless transition of high-performance CEO leadership. The exact same advice applies to boards if we want the right talent around the table on a continuous basis. In the past we would

respond to clients on a one-off transactional basis, but potentially disappoint them when the “ideal” candidates—including diversity candidates—were not available at that exact time. With the bar set at the highest level, we cannot compromise on the qualifications of new board members because of timing issues. Long-term board succession planning is a clear, evolving best practice.

Board Succession Process Framework

The process to develop a board succession framework (*see Case Study, page 46*) starts with a detailed analysis of the company's long-term strategic plan and what the company must do to drive long-term shareholder value. In that analysis, we try to simulate board interaction and board agendas to identify what precise competencies and successful experiences in directors would add the greatest value around the table. The first column in the case study summarizes the drivers of shareholder value and the second the alignment of required skills.

The third and fourth columns are more difficult and sensitive as they detail the current skills on the board, and where they fit the future alignment, and then their projected tenure. The final column provides a roadmap for prioritization of future board needs based on skills, gaps, and future retirements. It should also be noted that ideal future candidates may satisfy multiple priorities. One of the sensitivities is documenting the record of success in priority areas for current board members; this may highlight current backgrounds of board members that do not fit the framework. For example, can an individual who has never had a history of success or making good decisions add value?

Board Leadership

Factored into the framework is the objective to have a seamless transition of board leadership, whether it takes the form of non-executive chairman or lead director, as well as committee leadership.

Not all directors have the unique qualities required to assume these leadership positions. In fact, the individual who aggressively lobbies for these positions in many cases is the wrong person, and in other cases the person identified as the right choice may not have the time or interest. The current board leader along with chair of the governance committee must plan the process carefully.

CASE STUDY Board Succession Framework

The hypothetical company is a global medical device manufacturer anticipating the need for four to five new directors over a four-year time horizon. The framework shows how to align the company's toughest strategic and operating challenges with board skills.

Challenges/Key Drivers for Success Prioritization	Aligned Board Skills	Current Board Status	Projected Tenure	Future Priority
Drive to Be World Class in Operating Efficiency and Effectiveness	<ul style="list-style-type: none"> ■ Executives with first-hand exposure to driving operating excellence 			
Creation of New Growth Platforms (successful innovation) Company must create culture & discipline that enables company to consistently innovate and bring new products to market	<ul style="list-style-type: none"> ■ A CEO/COO who has led company successful in processes, innovation (in related industry a plus) ■ Executives who have led successful research and development functions 			
Medical Science Company must keep abreast of where science is going and the implications on future opportunities, changes in healthcare policy, obsolescence, etc.	<ul style="list-style-type: none"> ■ Research directors of prestigious genomics/microbiology research organizations ■ Research directors in diabetes research 			
Healthcare Delivery and Insurance Future success depends on understanding the demands on major customers and how to build trusted relationships	<ul style="list-style-type: none"> ■ A CEO of a major healthcare delivery systems ■ A CEO of a HMO 			
World Health Policy Initiatives Company must manage world health partnerships with extreme human sensitivity, as well as strategic and financial prudence	<ul style="list-style-type: none"> ■ A leader of a global world health organization 			
Globalization Company must continue to maximize global growth opportunities	<ul style="list-style-type: none"> ■ An executive with experience building global markets plus specific knowledge about global healthcare a plus 			
Laser Sharp Financial Management, Capital Markets, And Acquisition Skills	<ul style="list-style-type: none"> ■ A world-class, highly respected global CFO 			
Talent To outperform its competitors, company must become firm of choice for the industry's high-performing talent	<ul style="list-style-type: none"> ■ An executive who has driven a talent-rich organization 			
Product and Service Quality Excellence Company must maintain and enhance its reputation for excellence, including its reputation for impeccable ethics and integrity and exemplary regulatory compliance	<ul style="list-style-type: none"> ■ An executive who has led an organization that is respected for its customer focus ■ A respected former FDA leader or head of regulatory affairs at a major pharmaceutical 			

Outcome Company added four new board members over four years; all priorities were met since most candidates covered multiple needs. Of the candidates, 50 percent were diversity candidates; in both cases, the candidates were identified early but the company had to wait more than a year for each of their availabilities.

Source: Korn Ferry

Once the framework is developed and agreed on by the board, it must be kept fresh and current on a yearly basis to be sure new and emerging transformational issues are discussed, and if any create a new competency requirement for the board.

Benefits of Framework

Although the initial process of developing the framework reveals sensitivities, it does stimulate the right conversation around the table and, frankly, one that major shareholders expect boards to have on a continuous basis. Election by the shareholders is a privilege and honor and all directors should periodically be asking themselves questions about their continued value on the board. The framework process helps generate self-assessment and reflection, which should include the following questions:

- Directorship is not intended to be a lifetime appointment; have I earned the right to be re-elected?
- Given the future direction and challenges of the company are my skills still relevant and adding high value?
- If the board were to search for a new director, could they find someone with skills more relevant than mine for future challenges?

In addition to stimulating the right discussions around the board table, this framework allows the company to project its needs over multiple years. This extended time horizon allows for extensive research in all high-priority areas and in-depth discussions far in advance to determine interest, conflicts, and future timing amid a relaxed timeframe to get to know the candidate and assess cultural fit.

The extensive research and outreach builds a pipeline of candidates to both socialize—get to know them—and also be opportunistic if suddenly their calendar opens up to a board opportunity. This could happen if the candidate is on the board of a company that is acquired, if their company changes its policy regarding outside board limits, and for other reasons. If you have already built a rapport with a candidate you can make a preemptive move; be opportunistic even if it is a little ahead of schedule. When you think of board tenure, it makes little difference if ideal candidates join six months earlier or six months later than planned.



Dennis Carey (left) and Robert Hallagan

We all know the multiple benefits of “diversity of thought” on the board, as well as the heightened pressure to have diverse boards. The multi-year horizon allows targeted research of best-in-class companies to identify diversity executives who are up and coming and several years away from being exposed to board opportunities. Once these executives reach the ideal level it may be too late to recruit them, as the competition for their service heats up. And once they have one outside board, they are no longer available. Attracting them early and providing thoughtful board mentoring will help to ensure that the board attracts these future directors.

Boards should begin to embrace a board succession process—geared to long-term board needs—as a best practice, much as they have embraced CEO succession planning. By doing so, they will be working to align their boards more closely with company strategy and building a board team that will help to ensure its success. **D**

Dennis Carey and Robert Hallagan are vice chairs at Korn Ferry. *The Report of the Blue Ribbon Commission on Board Evaluations* is available at NACDonline.org/Library.