

SUCCESSION PLANNING FOR HARTFORD AREA HABITAT FOR HUMANITY

KEY NOTES FOR WORKING GROUP TO CONSIDER (1st goal)

- Maximum number of board members as we add Tolland and potentially Middlesex
- Must maintain 30% diversity on board of directors at all times (diversity meaning race/ inclusion meaning economic, industry representation, faith and equity referring to gender, orientation, age)
- Must establish a succession pipeline for executive committee and various board committees
- Nomination process

3 types of Leader Succession

- Temporary less than 30 days
- Long term between 30-90 days
- Planned Exit*

The second goal of this working group is to create a strategy to manage the planned exit of CEO. This includes job description, max number of committee, third party consultant and transition process from current CEO to new CEO.

IN THE BOARDROOM



Succession planning for the board

Taking a more strategic approach

In recent years, boards throughout the world have acknowledged the vital importance of long-term CEO succession planning. They have begun to adopt proactive and rigorous processes to secure the very best leadership for the business. But despite their progress in this area, many boards spend little, if any, time on planning their own succession and composition.

There is much to be said for stability on a board, for it may reflect an effective culture of collegiality, trust and consistency. But there is also a danger that it can lead to stagnation. In just about every sector, businesses are in a state of dynamic change. They are faced with some form of transformation, whether it be regulation, market disruption, innovative technologies, new business models or other forms of competitive pressure. The hallmark of a successful business is its ability to assemble the right executive and leadership talent capable of navigating these changing conditions.

It stands to reason, therefore, that boards should be prepared to evolve in a similar way in order to provide effective guidance to management when the organization is heading in a new direction, entering new businesses or exploring new geographies.

This article considers how boards can take a more strategic approach to planning for their own succession — in short, how boards should welcome rather than resist the opportunity to change.

Changing the board — embracing the inevitable

There is a growing recognition that boards with a good mix of age, experience and backgrounds tend to foster better debate and decision-making and less groupthink. Directors increasingly say that thoughtful succession planning can improve the composition and effectiveness of their boards. What's more, a recent PricewaterhouseCoopers survey found that nearly 40 percent of directors believe that "someone on their board should be replaced."¹ Spencer Stuart's own research indicates that there is a positive correlation between some amount of board turnover (described as the "optimal zone") and company performance.² Yet there is plenty of evidence to show that large numbers of boards remain static over a substantial period of time. We believe that when boards are not being refreshed on a continuous cycle, the business loses out, a view shared by a number of large institutional investors who are increasing the pressure on such boards to focus more attention on director succession planning.

Markets are inherently dynamic, industries change shape, and companies have to continually evolve, adapt and restructure. As they wrestle with the issue of change, boards have to be prepared to shed convention, rethink long-held ideas and embrace new ways of thinking about how, collectively, they can make the most effective contribution to the business. Like management, they must be agile, anticipating the need for change rather than lagging behind it.

Progressive boards continually consider whether they have the optimum composition that reflects the strategic priorities of the business and the diversity of stakeholders. The need for careful planning of board succession is greater today in light of aging boards, pressure from shareholders, rating agencies, governance watchdogs and regulators, and the demand for diversity and a broader set of skills to support changes in company strategies in a dynamic environment. All boards, from major corporations to nonprofit organizations, need to demonstrate their willingness to evolve if they are to remain relevant.

One manifestation of static boards is that they get older. This situation is exacerbated in

markets where there is a late retirement age, or none at all. Of course, with seniority comes wisdom, but in a fast-changing world some of the skills and experiences that directors bring lose their relevance over time, particularly when the business is forced to embrace technological innovation and respond to societal change or significant shifts in consumer behavior. Boards need to reflect generational change and it should be a concern of any board when the CEO is the only board member under 60.

It stands to reason, therefore, that boards should be prepared to evolve in a similar way in order to provide effective guidance to management when the organization is heading in a new direction, entering new businesses or exploring new geographies.

¹ "Trends shaping governance and the board of the future: PwC's 2014 Annual Corporate Directors Survey," PwC, 2014.

² "How much board turnover is best?" by George Anderson and David Chun, *Harvard Business Review*, April 2014.

Board composition and strategy

Boards should regularly review their makeup in light of the company's strategic direction, identify the capabilities that would be valuable to the business and regularly infuse the board with fresh perspectives relevant to the organization's future.

This point cannot be emphasized strongly enough. It is not a question of change for change's sake. When the company's strategy shifts, then the question needs to be asked about the suitability of the present board to provide the right counsel and evaluate the performance of management while that new strategy is being executed. It may be that the business is facing a new external challenge that requires some board-level expertise, for example in the area of digital, multichannel retail, cybersecurity, sustainability or government relations (at home or in new markets). There are a number of scenarios where it makes sense for the board to add an expert, rather than simply make do with the current team or rely on outside advice and consultants.

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Dealing with risks and obstacles

Synchronizing the composition of the board with the strategic evolution of the business is easier said than done. The levers boards can pull are far more limited than those available to management when hiring or replacing new talent. Consequently, they need to be exercised with even more forethought and conviction if they are to be successful. Outstanding leadership is vital if the board is to overcome the common challenges.

Some boards are prioritizing new areas of expertise when recruiting nontraditional candidates, especially younger, active executives, to bolster their knowledge in areas such as digital or social media, finance or emerging markets. This can involve an element of risk. First, such director candidates may lack board exposure, so there will be a need to bridge any gaps in knowledge and experience of how boards work. Second, adding a much younger director or one with a very different background may cause difficulties in terms of the prevailing board culture. Will the new person integrate effectively and make the transition to a more advisory/supervisory role than they are used to? Third, will they be able to contribute to the broader work of the board beyond their specific area of expertise?

One of the ways in which a board can contribute to its own evolution is through the thoughtful use of assessment, which is a valuable tool for addressing the suitability of new directors as well as those who have been around for a while. Many seasoned board members are defensive about going through some form of assessment to determine their suitability for a job they feel they are doing perfectly well. That is understandable. There is a more palatable alternative, however, involving the creation of a skills matrix that helps stimulate a conversation about whether the optimal mix of skills, expertise and experience is available on the board and, if not, what needs to be done about it. This work is sometimes facilitated by an outside adviser who can bring an objective eye to determining the match between the board's current attributes and the future needs of the business.

The annual board evaluation is also a natural platform for the full board to review its composition and discuss the expertise that it will need in the future. Providing the right questions are asked, it can help tease out the areas of knowledge

Whole board succession: Questions boards should be asking themselves

While there are some significant regional differences in how boards address the issue of director succession, we have developed a series of questions that may help boards think through how best to shape the composition of the board over time.

1 **What is the anticipated business context and how well-suited is our board for it?**

What strategic, market, technology and regulatory shifts does the company anticipate in the next three to five years or more? What skills and attributes does the board require to best oversee the company's response to those shifts?

What do investors expect from the company and the board in the coming years?

What executive leadership transitions (e.g., CEO succession) do we anticipate? How can board composition be adjusted to complement the capabilities of the next generation of leadership?

2 **What are the practical benefits of board succession planning and how can we maximize those benefits for our company and its shareholders?**

How can succession planning help make our individual director recruitment even more effective?

How can succession planning help make individual director departures smoother and more dignified?

How can we use our succession plan to ensure we achieve appropriate levels of diversity on our board?

3 **How can board evaluation support the process of board succession?**

How should our succession plans be incorporated in our annual board self-assessment?

What process does the board use to evaluate its performance and the performance of directors on a regular basis?

How does the process help identify gaps in expertise and skills the board may require in the coming years?

How does the evaluation process help the board address the need for such skills through its succession plan?

4 **What are best practices in board succession planning?**

What are some proven processes for developing a succession plan? How can we customize those for the unique facts and circumstances of our company?

What is the timeline for developing and refreshing a board succession plan? Where does succession planning best fit in the board's annual calendar?

Who should lead this for the board? Chair, lead director, nomination/governance committee chair? What role should the CEO play?

Which discussions should take place one-on-one, in committee, at the full board level? How do board and company culture factor into these plans?

the board should possess in the coming years based on the company's strategic direction and the competitive landscape. Without subjecting itself to a rigorous evaluation of the collective skills and experience around the table, the board can easily fall into the trap of "fighting the last war" rather than focusing on the needs of the company several years into the future.

In some markets it can be extremely difficult to introduce new skills on to the board due to entrenched interests, retirement age increases and open-ended arrangements. There will always be some natural attrition, but that may not be sufficient to enable the board to expand or strengthen its skills when it needs to.

Three-year terms are the norm in some countries. These afford directors and the board some stability (most, but not all, directors serve a minimum of two three-year terms), yet they provide a natural break point should an appointment not work out. Where such break points do not exist, it can be extremely hard to plan changes to the makeup of the board. Interestingly, in those markets where a high proportion of directors choose to pursue plural careers, there is more mobility between boards and the rate of refresh is higher — resulting in boards that are more likely to be fit for purpose (see related article: “The pace of board evolution: Comparing the U.K. and U.S. experiences”).

Whole board succession — a holistic approach

The nomination committee plays a critical role in analyzing the board’s needs over time and planning accordingly. In recent years, it is noticeable that the nomination committee chairman’s role has grown in stature. Having a strong and forward-thinking person in that role is fundamentally important.

In the past, boards have tended to address director succession only on an as-needed basis, when facing an impending vacancy. Boards that take this approach, however, may be putting themselves at a disadvantage; by the time they start looking for a replacement director, it may be too late to secure the best person. Just as with CEO succession, by planning further ahead it is possible for boards to widen the net, increase their options and secure the very best talent at the time when it is most needed.

Having reviewed the strategic direction of the business, the board may decide that it needs to replenish its skills base and fill a number of gaps. However, trying to find all the requisite attributes in one individual may be next to impossible. In such circumstances, recruiting is likely to be far more successful if the board has two seats to fill in a reasonably short time frame and those skills and attributes can be spread across two or more people. This takes some pressure off the recruiting process and is a compelling argument for developing a long-term plan for board succession. Also, onboarding can often be more effective when two new directors go through it at the same time.

Boards should regularly review their makeup in light of the company’s strategic direction, identify the capabilities that would be valuable to the business and regularly infuse the board with fresh perspectives relevant to the organization’s future.

A holistic succession planning process begins with the board reviewing and confirming the desired expertise and qualifications for new directors, identifying potential director candidates, and approaching candidates well in advance to let them know of the board’s interest. It may be helpful to tap external resources at the point when specific vacancies are nearing. For example, through their work with boards and top executives, search consultants often know on a confidential basis the plans of many senior leaders. Particularly in the case of CEOs, who are often inundated with board invitations, it is valuable to understand their restrictions and preferences for outside board service, as well as their retirement plans. A search firm often has the ability to discreetly test executives’ interest in a new board role and his or her future availability, and also to look globally at new, younger candidate pools such as executives with digital experience.



The pace of board evolution: Comparing the U.K. and U.S. experiences

On the surface, there are many similarities in how boards operating within the Anglo-Saxon corporate governance model go about their business. Broadly speaking, they share a unitary structure that is geared towards a shareholder-centric approach, and the board's role is to advise and monitor the activities of management and find the most appropriate way to reward it. There are, however, some striking differences between U.S. and U.K. boards in terms of how easily they are able to adapt themselves to reflect changing market conditions. These differences are part cultural, part behavioral, and provide interesting points of comparison for boards in other parts of the world, too.

U.K. boards tend to be highly conscious of director succession issues because of tenure limits imposed by the U.K. Combined Code. Most chairmen think in terms of three-year cycles for directors. Although all directors are elected each year at the AGM, after nine years on the board a director ceases to be classified as independent and forfeits the right to chair a committee. In most cases, directors leave the board at this point. However, it is quite common for directors to serve only two three-year terms, and there is no stigma attached to this. Indeed, it is not uncommon for directors to come off boards

after serving for less than six years, although serving less than three years can raise questions.

The reason for this is that U.K. executives tend to retire from professional life earlier in order to pursue a non-executive career, treating this phase of their working lives with the same type of discipline and ambition as they did their executive careers. They will seek to manage their portfolio to gain exposure to different boards and, as a result of broadening their experience, they may eventually position themselves to become a senior independent director or board chairman. This career-minded attitude, coupled with tenure limits, creates a high degree of mobility among the non-executive population in the U.K. The resulting level of board turnover forces board chairmen to actively manage director succession and provides regular opportunities to bring fresh talent, strategically relevant skills and diverse perspectives into the boardroom.

The U.K. chairman is almost always non-executive and usually chairs the nomination committee. He or she develops a good feel for the business and whether the board understands and is keeping up with what's going

on. At least two executives (the CEO and CFO) sit on the board, and there is plenty of engagement between board directors and the senior management team who are given the opportunity to present to the board. Board directors are encouraged to see the business from the front lines and gain considerable exposure to the organization during the course of the year.

On U.S. boards, the absence of tenure limits, coupled with the trend towards later retirement ages, results in less turnover and longer average director tenure. As U.S. boards think more systematically about director succession, they do so in the context of historical U.S. board norms, reflecting a different mindset from their U.K. counterparts.

Retiring U.S. CEOs or CFOs often wait to be approached about serving on a board. They are not likely to actively manage the “directorship” phase of their careers in the same manner as a U.K. executive. Once appointed to a board, U.S. directors typically serve until reaching the mandatory retirement age. They are less likely to consider voluntarily rotating off a board unless unique circumstances compel it. Further, for some U.S. executives, the notion of becoming a “professional director” — commonplace in the U.K. — is regarded with a measure of skepticism.

When U.S. directors were asked in a recent survey why they think underperforming directors are not removed from the board sooner, the number one reason given was: “Board leadership is uncomfortable addressing the issue.” Why is this?

One reason may be that the nomination and governance committee chair, often the lead independent director in the U.S., has a sensitive job to perform in a context distinct from that of a U.K. chairman. We observe a tendency for U.S. nomination and governance committee chairs to view themselves as a peer to the other directors, asked to serve as *primus inter pares* for a period of time. They do not tend to view the role hierarchically. This egalitarian perspective combined with a tendency towards collegiality may lead to a diplomatic approach to issues that can take longer to play out.

Further, many retired executives in the U.S. view board service as a way to “give back,” to make an important contribution to a larger system of corporate governance that provides broad social and economic value. They view their professional experience and years of accumulated business judgment as a resource that benefits the companies they serve. The director’s knowledge and diligent oversight helps safeguard the interests of the company’s long-term

shareholders, as well as its employees, customers and suppliers. In the context of these aspirations, it is understandable that executives who accepted a directorship(s) would seek long-term involvement with their boards.

Authors

George M. Anderson (Boston), Tessa Bamford (London), Julie Hembrook Daum (New York) and Bertrand Richard (Paris)

About Spencer Stuart

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Key Components of Succession Planning

Is there a noticeable shift in affiliate momentum whenever there is a transition in leadership? As a leader, what is the key for setting the next leader up for success? Think of the end result of what you want – What would affiliate leaders need to do to reach that goal?

Listed below are the **FIVE** fundamental considerations affiliates need to develop a succession plan

- **Begin with the end in mind** – *a good succession plan will end in alignment with the affiliate's strategic goals and objectives. From this endpoint, use the affiliate strategic plan to develop steps to insure that leadership transitions are seamless.*
- **Develop a plan and a timeline for leadership transition** – *Once the strategic goals and objectives are established as an endpoint, an affiliate can begin to plan a systematic and timely approach to governance in accordance to term limits and unexpected vacancies.*
- **Recruit and orient new board members** – *Begins evaluating board composition and conduct a skills assessment for effective recruitment of new members in order to establish a clear line of leadership progression.*
- **Identify and cultivate leaders** – *Once new members have been recruited and oriented its time now to prepare the leadership progression for alignment with governance practices as well as future transitions.*
- **Document and transfer knowledge** – *Affiliate boards should consider investing in effective ways to document decisions, policies and activities as part of succession planning. Establishing the right management/information technology infrastructure insures an efficient transfer of knowledge and a seamless leadership transition.*

