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Charting your process.

Quick, name the most important duty of a board of directors. Choosing the CEO? Monitoring and evaluating his performance? CEO succession planning? Setting strategy? Overseeing company performance? These are the key items that usually come to a director's mind when thinking about carrying-out her fiduciary responsibilities. However, there is another duty that is less talked about, but equally as important and essential and that is succession planning but for the board directors themselves.

What is board succession planning?

It's a process that proactively ensures board composition meets the strategic needs of the company, now and in the future.

Finding the right directors has always been important to boards. However, three things have recently changed. First, there is heightened interest from shareholders about board composition and qualifications of board directors. This is especially true at companies that miss performance targets. Second, the lack of diversity in boardrooms is increasingly capturing public attention. Third, directors are being held accountable for their action, or inaction, either through "no" votes or via shareholder lawsuits. One way to mitigate risk associated with all of the above is to proactively and regularly focus on the composition of your board and the qualifications of your directors.

Historically, many boards have approached the nominating process without a lot of strategy. It was done on an "as needed" basis, often filling vacancies from the same business circles that brought in the current slate. In today's environment, proactive board search should be on every governance committee's agenda, every quarter, and the search process should be strategic, going beyond the "old boys" network.

Why is board succession planning essential?

Embedding board succession planning as a regular part of the board's work is part of a sound risk management process that allows directors to proactively anticipate retirements while linking board needs with the company's long-term strategy; factoring in age, tenure, diversity and culture. It also ensures the board is prepared for unexpected departures and gets out in front of potential shareholder criticism.

Board composition gives stakeholders a window into the boardroom. In 2009 the SEC enhanced its disclosure requirements for director nominees, and company proxy statements must now highlight director backgrounds and qualifications, many in easy to read charts. Now, the SEC is wondering if existing disclosures provide investors with enough information. At a January 26, 2016 securities conference, Securities and Exchange Commission Chairman Mary Jo White outlined several new priorities, including boardroom diversity. Chair White said she has instructed staff to review existing company disclosures and give recommendations about whether the SEC should require companies to provide more specific information about the racial or gender composition of their boards.

Boards that want to be more visionary, strategic and accountable adopt a board succession planning process so that their governance practices demonstrate: (1) individual director performance is measured and matters; (2) board skills are matched with the company's strategic plan, and: (3) board seats are not "Supreme Court" seats, in other words, a board seat is not a lifetime appointment.

How do you build a succession plan?

Succession planning for boards, like other executive succession plans, is an ongoing process. The following ten steps are integral pieces to a good practice.

1. Identify the board committee that will be responsible for the board succession plan; spell out your process. This is often the nominating & governance committee, but could be the compensation & management development committee. It is important that the task be clearly articulated in the committee's charter and board governance guidelines.
2. Create a board matrix. This is a standard form, with director's names written down one side and skills/experiences written along the top, e.g. financial expert, industry experience, marketing, legal. Then, add in ages and retirement year (if there's a set retirement age or tenure limit). You may also want to add ethnicity, gender, geography, economics. Understand that some attributes are universal and every director must possess them; others are essential in the collective competency of the board, but not required of every director.
3. Consider the company's strategic plan. There are certain standard skills that every board needs and others that are unique to the company's strategic direction, objectives and industry. Add these skills to your matrix.
4. Identify the gaps. If, for example, no directors are familiar with information technology and cyber security, understand that for change to happen, the board will need to broaden its connections with organizations and individuals who can connect directors with individuals who possess this skill.

5. Start a "prospect" list. Once the current and near-term gaps have been identified, the board can begin to identify potential candidates either on their own or through a partnership with a search firm that specializes in board recruiting. The potential list may include recommended names, names of speakers that you've heard and other experts. Continuously update and refresh the list.
6. Focus on a "short" list and conduct casual introductory conversations. Periodically visit with potential candidates on this list – it allows you to get to know the person and to understand whether she might add to the board's expertise and if he might "fit" culturally.
7. Talk with current directors about their interest and plans. This might be a standard question during the board's annual performance review process.
8. Adopt a performance-based reelection process. Directors who are eligible to stand for election to another term should not be automatically added to the slate of nominees. They should be asked to confirm their interest and undergo a clearly defined performance-based reelection process. The review might include attendance at meetings, participation in education opportunities, noteworthy contributions, evaluations from committee chairs and responses from the board and individual director assessments.
9. Update the full board. The committee should report to the full board on composition, today and in the future, prior to the nominating committee presenting its annual director nomination recommendation to the full board.
10. Review the process. Once the process is prepared, periodically review how it is being played out and tweak the process as necessary.

Concluding thoughts

As the expectations for good governance, accountability and board effectiveness have increased, the limits inherent in traditional, informal and often reactive board recruitment have become apparent. The proactive planning process allows directors to take their time and to meet people in advance of a need. It demonstrates that the board is action oriented, strategic and accountable. Board succession planning not only assures the board collectively has the experience and expertise to oversee opportunities and challenges; it also allows the board to have candidates prequalified in the event of an unexpected board vacancy. The board of directors is a critical company asset, its configuration and reinvigoration should definitely not be left to chance.

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