The state of leadership succession planning today

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This year’s edition of the annual Board of Directors Survey conducted by Heidrick & Struggles and WomenCorporateDirectors (WCD) represents both a real departure from previous surveys and the latest chapter in an ongoing story. Where prior studies provided a comprehensive view of board trends and perspectives across a wide range of issues in governance, strategy, and commercial and economic conditions, this year’s survey focuses sharply on three critical issues of leadership succession.

First, given the vast amount of attention devoted in recent years to one of the board’s central responsibilities – appointing the Chief Executive Officer – we wanted to know how boards are responding in practice. Second, we looked at leadership transitions on the board itself, including its committees. Third, we asked directors whether the companies they oversee are helping groom diverse executives for service on external boards in the future.

Though the focus is narrower, our purpose remains the same: to discern convergences and divergences of directors’ perspectives by gender and geography, and to consider the findings in light of the often elusive goal of board diversity. Most importantly, we offer our assessment of the findings against best practices in leadership succession. Drawn from a universe of more than 900 directors from 44 countries, this year’s study offers significant findings and practical guidance that directors can use to see where their boards stand on this critical area of board performance today.
CEO succession at a glance

How are boards responding?

48% respondents say succession should be a board decision

IN REALITY THE DECISION IS MADE BY

41% board
22% nominating & governance committee
25% chairman

Leadership transitions

77% do not have diversity quotas / targets

Boards that do have diversity quotas / targets

71% Africa
48% Europe
16% Asia
3% North America

Building for the future?

37% groom women or diverse candidates for future board service

Company executives and outside boards

87% board allows
47% one board
35% no limits
18% two boards
CEO succession
One-off activity or ongoing discussion?

Despite the now decade-and-a-half old push for good corporate governance and for improved CEO succession planning in particular, a substantial number of boards continue to fall short in their approach to choosing their next chief executive. We found that 40% of respondents say that succession planning is discussed only occasionally and is not an ongoing activity or it is launched only after the current CEO has announced that he or she is leaving or retiring within one or two years.

While it is tempting to see the glass as more than half full, with 60% of boards making CEO succession planning an ongoing activity, it is bracing to reflect that four in ten boards do not.

Long-range, ongoing succession planning is essential in order to continually assess internal candidates, to benchmark them against potential candidates externally, and to allow internal candidates adequate time to undertake substantive development assignments if necessary. Unless the entire process is begun as many as five years in advance, it is extremely difficult to make sure that a candidate has the requisite time to close what may be multiple development gaps by, for example, assuming an international assignment, getting comfortable with an unfamiliar business discipline, and improving general management skills.

Discussion should not only begin far in advance of the planned exit, but also increase in frequency and intensity as the date approaches.

Who should drive the discussion? There is near universal agreement (98%) that the actual selection process should not be driven by the sitting CEO. Nevertheless, newly appointed CEOs should acknowledge the issue as early as their second meeting with the board, broaching a subject that directors may be reluctant to raise so soon. The board ultimately owns the process, of course, but the further out the time horizon for the succession the more the responsibility for driving the process and maintaining its momentum falls on the CEO. Boards that successfully manage this dynamic understand that the key question in succession planning is not whether to keep the CEO entirely at arm’s length or to let the CEO dominate or even to try to achieve some golden mean. It is a question of timing – of the degree and nature of the incumbent’s involvement as the process unfolds and of the board’s ultimate assumption of its responsibility.

Boards should not only plan for the long term, but also be prepared for an emergency succession.

In this year’s survey, only about 14% of respondents indicate that their board is “very prepared” for a crisis at the C-level, such as the CEO leaving without notice, and 32% say they are “somewhat prepared.” In Asia, 77% say they have not identified or don’t know if there is a qualified person “at the ready” to lead their company in a crisis, compared to a figure of 48% in North America. Well prepared boards discuss contingency plans as part of their ongoing succession planning process and, because the landscape of potential successors changes, they regularly review how the board might proceed in the event of a crisis.
Globally, nearly half of female directors and more than 47% of male directors say that responsibility lies with the full board. Regionally, board directors echo this sentiment, with more than half of survey respondents in Africa (60%), Australia (61%) and North America (52%) believing that the full board should drive discussions of CEO succession, compared with 45% in Asia. However, in practice, only 41% of directors indicate that CEO succession discussions are handled by the full board, while 22% say the Nominating and Governance Committee, and 25% say the Chairman. In Asia, 32% of the CEO succession discussions are driven by the Chairman, with only 20% driven by the Nominating and Governance Committee and 30% by the full board.
CEO succession planning

Broken down by region, the figures on the frequency of CEO succession planning vary widely. In North America, Europe, Australia and Africa, more than half of boards actively discuss CEO succession. In Asia, however, 80% of directors indicate that CEO succession is discussed occasionally or only after the current CEO is leaving. In Central and South America, 70% report a similar approach to CEO succession planning. Further, more than half of the survey respondents in Asia and Central and South America say that CEO succession is either never discussed or only discussed once a year.
Board succession and leadership
Steady or static?

Changes in board leadership – Chairmen, lead directors, and committee chairs – occur infrequently.

Directors reported that 63% of board Chairs and 50% of lead directors rarely rotate. Although 62% of committee chairs rotate every few years, more than one-third rarely do so. Committee composition appears to change at a similar pace, with 63% changing every few years but 27% of committees rarely changing.

Survey responses to additional questions about board succession and leadership reveal much about the challenges in building boards that are multi-gender, multi-skilled, multi-national, multi-ethnic, and multi-generational. While diversity is a professed goal of many boards, in practice they often ask to be presented with candidates who are CEOs, CFOs, or General Managers, where the ranks of diverse candidates are thin and those who do fill the bill are often fully “boarded up.”

With board leadership relatively static and board turnover infrequent, mechanisms like quotas, targets, mandatory retirement, and term limits have often been put forward as means for refreshing boards. However, there is little uniformity globally in the adoption of such mechanisms and little agreement about their desirability and effectiveness. More than 77% of directors surveyed indicate that their boards do not have a quota or diversity target. However, 71% of board directors of African companies and 48% of directors of European companies report having a quota or target. In Asia, 16% report diversity targets while in North America the figure is even lower – only 3%. Among the directors who report a target or quota, 60% feel that its effect has been to strengthen the board. However, a sizable disparity in responses by gender emerged, with 74% of female directors saying the targets strengthened their boards while only about 50% of men agreed.

Interestingly, term limits are supported by comfortable majorities in every region of the globe except North America, where the figure is a little over 40%, compared to Central and South America (74%), Africa (71%), Europe (70%), Australia (63%), and Asia (63%). Globally, male and female directors support term limits in about equal numbers, 53% and 56%, respectively.

Men and women appear also to be almost evenly divided about instituting a mandatory retirement age for board members, with nearly 52% of male directors and a little more than 48% of female directors supporting the idea. Of those who support mandatory retirement, almost 65% feel that the ideal age falls somewhere in the range of 70 to 74 years of age. Several respondents say that although their boards have mandatory retirement, it is sometimes waived in the case of directors they wish to keep. On the other hand, says an Australian director, “I have seen major problems with directors who don’t know when it’s time to go – a firmly fixed retirement age could be a useful tool.”

Another avenue that can open up opportunities for bringing fresh perspectives to the board lies in exiting directors who no longer fit the current needs of the board. The director’s competencies may have ceased to be relevant to the business. Or
the company’s long-term strategy may soon render those skills obsolete. Some directors may lack the needed competence in areas such as enterprise risk management necessitated by the dramatic increase in threats to the enterprise. Others may simply be underperforming – failing to prepare for meetings and contributing little of value to deliberations. Diplomatically easing such members off the board can bring new blood and new ideas to seats that are, in effect, already vacant.

However, only a little over 53% of respondents indicate that their boards are “somewhat effective” or “effective” at handling such delicate transitions. As one director said in a response to an open-ended question about the issue, “It is difficult to have existing board members see that they no longer fit; and personal relationships and sensitivities make it difficult for the other members of the board to ask them to leave.” In addition, about 25% of directors say that their boards are “neither effective nor ineffective” at the task, which could suggest that they have attempted it rarely, if ever – a suggestion confirmed by a number of respondents who remarked that the issue had never come up on their boards.

In our experience, tightly integrating board succession planning with comprehensive annual board assessment can not only improve board and committee performance but also provide a basis for altering the composition of the board when necessary and making sure that the right people are chairing the principal committees.

Nearly 84% of survey respondents globally indicated that their boards conduct annual board evaluations, with the figures for Africa, Australia, Europe, and North America ranging from 80% to more than 90%.

All too often, however, board assessments can be empty, pro forma exercises – boxes to be checked off and then filed away and forgotten. An effective assessment should certainly determine how well individual board members are doing, but it should also address issues of teamwork and board dynamics, which of course directly affect how well the board performs its legal obligations. Ultimately, of course, decisions about board succession and leadership are contextual – depending as they do on the current composition and capabilities of the board, long-term company strategy, and available director candidates. A board that is composed largely of CEOs and other members with significant P&L experience likely does not need yet another general manager, nor does a board top-heavy with experience in the company’s industry need another industry veteran. Conversely, the board of a company shifting to a strategy of growth by acquisition may need a CEO or CFO who has been down that road.

Further, as the varied survey responses to issues of board succession and leadership confirm, directors do not universally agree on the best mechanisms for
periodically refreshing their boards. Nevertheless, there are some concrete steps they can take, in addition to putting in place whatever mechanism, if any, they favor.

For example, the full board can ask that the nominating committee, or whoever is responsible for director search, offer diverse slates of candidates. The board can also establish a process of reviewing multiple criteria for new board members, considering not only diversity of gender and ethnicity, but also of geography, skill sets, industry background, and other experiences. This should enable them to look beyond CEOs and “well-rounded” directors for candidates with specific skills who can contribute directly to the strategic needs of the business. Such skills might include digital innovation, strategic talent management, supply chain management, knowledge of emerging markets, or global branding. In addition, boards can consider how younger candidates can bring fresh thinking to the boardroom. These candidates can be found especially in industries such as media, music, travel, and retail, which have been transformed by digital and social media.

No one of these steps will by itself magically transform a board. But in the aggregate they may make a difference in the outcome of board succession decisions, in effect widening the context of those decisions in ways that could significantly benefit board performance.
The next generation of directors
What can boards do?

One of the most promising ways to ensure a full pipeline of diverse, board-ready candidates lies in companies grooming their outstanding executives for external board service and helping them secure it. To date, however, it is an opportunity that the overwhelming majority of companies appear to be forgoing. More than 87% of the directors in this year’s survey indicate that their board allows company executives to serve on outside boards. And while nearly half (47%) limit such service to one board, more than a third (35%) have no limits, and nearly one-fifth (18%) allow service on two boards.

Yet, when asked if the companies they oversee groom women or diverse candidates for future board service only a little over 37% of the respondents overall say yes, and in no region of the world does the figure exceed 50%.

Despite these numbers, there are signs that more companies are taking up the challenge. There have been a number of prominent examples of CEOs successfully championing the diverse candidates in their executive ranks.

Leading companies are increasingly availing themselves of “On Board Bootcamps” designed by WomenCorporateDirectors to provide an insider’s guide on how to be selected for a board and to introduce participants to experienced corporate directors and search executives. Heidrick & Struggles hears more frequently than ever from companies recommending their top executives for board service. In addition to encouraging commitment to such activities, board members can also take a part – sponsoring especially diverse leaders, mentoring them, and helping them, insofar as possible, to get on the radar with other boards and with executive search firms.

Helping top executives to find a seat on an outside board can also increase the likelihood of retaining them in their current roles. With companies willing to pay a premium for top talent, the most talented executives in any organization are likely to be approached with attractive job offers at any moment. For valuable executives, especially those with long tenure, external board service can offer enough of a stretch to keep them from having to seek additional professional challenges by leaving for another company.
Conclusion

Many boards have come a long way from the norm of a decade ago: a group of insiders and homogenous colleagues hand-picked by the CEO. A number of boards have even gone on to become exemplars of good governance, attuned to best practices and constantly striving to improve their performance.

But for a great many other boards there is still much work to be done in all three of the areas our 2013 survey encompasses: CEO succession planning, board leadership succession planning, and the grooming and support of promising and diverse executives for board service.

As directors move into 2014, they can take up these challenges by engaging in the best practices suggested in the analysis of this year’s survey:

- Maintain a diligent and disciplined CEO succession planning process that restarts as soon as a successor is appointed.
- Structure the process so that the responsibility for driving it shifts from the incumbent CEO to the board as the succession date approaches.
- Prepare for an emergency succession by regularly discussing contingency plans and reviewing leadership options.
- Maintain a diligent and disciplined board succession process designed to build the kind of multi-gender, multi-skilled, multi-national, multi-ethnic, and multi-generational board that competitiveness increasingly requires.
- Consider the various means of refreshing the board – from term limits to mandatory retirement to shedding ineffective directors – and determine if they can help your board achieve diversity in all senses.
- Tightly integrate board succession planning with comprehensive annual board assessment.
- Make the sure the company is grooming and championing its outstanding executives, including its diverse executives, for outside board service.

Like this year’s study, next year’s survey will likely turn up indications of only incremental progress or even stasis in some areas of board practice. But if more boards adopt best practices in leadership succession planning, we could also see further proof that directors around the world not only take these issues very seriously but that they are increasingly doing something about them.

For more details on this study please contact

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