When the planets are aligned — or misaligned, depending on your point of view — your board can find itself facing multiple departures of directors. Several members may be approaching retirement at roughly the same time due to age or term limits. Perhaps an underperforming or inactive director needs to be removed in the same time frame. Or a director takes a position that conflicts with continued board service, or leaves an outside position, triggering a bylaw that requires board members to be active outside the boardroom. Additional vacancies can occur through illness, death, or an unexpected voluntary retirement.

Filling one board seat is hard enough; filling several simultaneously can seem like trying to change all four tires on a moving car.

Simple rules
It doesn’t have to be that difficult. With foresight, the right attitude and these simple rules of the road, boards can avoid the mistakes that the pressure to make multiple appointments can cause.

Begin addressing multiple departures far in advance. On boards with age or term limits, the nominating committee should not only track anticipated departures but begin addressing them two to three years in advance. As many nominating committees have found in recent years, recruiting qualified directors has grown harder than ever. Many companies have restricted the number of outside boards their officers can join, and many executives prefer to focus on the increasingly complex demands of their own companies. And with increasing regulatory scrutiny, director liability, and shareholder activism, many qualified candidates find board service unappealing and risky. In the face of this new reality, deliberate planning around board recruitment mitigates a hasty appointment the board might later regret.

Regard multiple vacancies as a rare opportunity. Board departures don’t often take place simultaneously, and on many boards even single departures are few and far between. When a vacancy does loom, many boards simply react by replacing a departing director with someone similar: a CEO for a CEO, a financial expert for a financial expert, and so on. This reactive approach can be a mistake even in cases of a single retirement and an even bigger mistake with multiple departures. Wholesale replication of the current board locks it in to the same skill sets and culture for years to come, whether or not all of those skills or the culture are relevant to the changing business environment. Multiple departures offer a rare opportunity not only to fine-tune the board (as with a single new appointment) but to significantly realign its composition, competencies and culture.

Think strategically about the business and what skills the board needs...

By Lee Hanson and Les T. Csorba

Lee Hanson is a vice chairman in the New York City and San Francisco offices of Heidrick & Struggles (www.heidrick.com). She is a senior member of the Global Financial Services Practice and CEO & Board of Directors Practice. She specializes in the private equity and venture capital, investment banking, asset management, and hedge fund industries.

Les T. Csorba is a partner with Heidrick & Struggles where he leads the Houston office. He is a member of both the firm’s Industrial and the CEO & Board of Directors Practice, focusing on the petroleum industry. Prior to his experience in the executive search business, he served in the White House as a special assistant to the President of the United States for presidential personnel during the George H.W. Bush administration.
in the future. Before embarking on multiple searches, the board should undertake a strategic planning exercise designed to consider the company’s long-term strategy against present and future board composition. For example, the company may be undertaking a new long-term strategy that will require different skills, such as dealmaking experience for a company planning to move from organic growth to growth by acquisition. On the other hand, the board may be losing an essential skill set that will remain central to the company’s strategy. In that case, the board will want to be sure to reserve one of the coming vacancies for that expertise.

Further, while turnover on boards typically proceeds at a glacial pace, business changes rapidly. Consider, for example, the rising importance of emerging markets, the sudden ascent of social media, and the coming tide of big data. In some industries the cycle of change and disruption can be as short as every three to five years. In these volatile environments, farseeing boards can use multiple vacancies to acquire the cutting-edge skills and experience that will be critically important to the company’s competitive viability in the future.

Be willing to change the culture of the boardroom. The nominating committee should ask itself these questions: Does the current board lack the diversity that brings with it the innovation and creativity of thought critical for competition today? Is the boardroom atmosphere too contentious, sometimes impeding careful deliberation? Alternatively, is it too clubby and thus stagnant? Too inclined to rubber-stamp management’s actions instead of providing the proper oversight? Multiple vacancies offer the unique opportunity to correct such imbalances, requiring that the nominating committee think carefully not only about candidates’ expertise but also about how their leadership attributes, backgrounds, and temperaments are likely to affect the board’s culture.

Be flexible about which candidates you appoint and when. Consider the example of a global consumer products company facing three pending board departures that will occur within 18 months of each other. After carefully considering what competencies and characteristics of new directors will best fit the company’s long-term strategy and contribute to the desired boardroom culture, the board determines that they want: (1) a woman to add diversity, (2) an Asian national familiar with emerging markets, and (3) a CMO or other experienced marketer at home with digital marketing.

Initially, the committee concludes that the female director represents their most pressing need because the board includes only one other woman and the company’s traditionally male product line is going to be expanded to encompass products for women. They then want to seek an Asian national because although the company has operated in Asia for decades, it foresees great potential for growth specifically in emerging markets there. The marketing seat can be filled last — after all, marketing is in the company’s DNA.

We would advise the board to abandon the prioritization, begin the search for all three pending vacancies simultaneously, and appoint the best candidate for each as that candidate becomes available. Maintaining a rigid order in which to satisfy each profile runs the risk of appointing a merely acceptable candidate when the first vacancy occurs, instead of appointing an outstanding candidate for a lower-ranked need. In six months or a year, that outstanding candidate and ideal fit for the lower-priority profile may not be available. Flexibility about when to hire would enable the company to fill all three of its pending vacancies with directors who more closely fit the desired profiles, though not in the order the board originally determined.

If necessary, enlarge the board temporarily. In some cases, your board may lose a critical skill or key board member and fortuitously find that a highly desirable, but untested, candidate is available. It might then be prudent to add the new director before the key director retires. This temporary expansion of the board gives the new director time to learn the business and become thoroughly integrated with the other directors.

Don’t shy away from removing underperforming directors. Underperformance could stem from a variety of causes: Underperformers’ competencies...
may have long since ceased to be relevant to the business. Or the company’s long-term strategy may soon render those skills obsolete. Long-standing directors whose tenure predates the new order of more rigorous governance may no longer provide the requisite degree of independent oversight. For example, some directors may lack the needed competence in areas such as enterprise risk management necessitated by the dramatic increase in threats to the enterprise — cyber security, terrorism, corporate espionage, and more. Or they simply don’t have the deep operating industry experience that shareholders increasingly demand.

For example, the board of a major global oil and gas company was facing increasing pressure from its largest shareholders to bring deeper industry operating experience onto the board. Because the company was dealing with significant cost overruns, miserably poor returns on the allocation of billions of capital, and was significantly underperforming its peers in creating share value, shareholders were demanding immediate action. The board, filled with a number of distinguished citizens placed on the board by the chairman and CEO, did not have a single operating executive from the industry. Unresponsive to the dissident shareholders, the board now faces a proxy fight with an alternative set of directors. The distraction of the proxy fight has, in turn, created enormous issues for the company, including declining morale, retention problems, and unwelcome media attention and additional scrutiny.

Asking a director to leave the board in the best interests of the shareholders is difficult, and it requires heads of nominating committees who have the stature to initiate the conversation. In the midst of multiple departures, deliberately creating yet another vacancy might seem like an act of masochism. But in a sense the seat is vacant anyway.

**A reinvigorated board**

Board leadership matters, especially when hard decisions need to be made about board composition and the future needs of the business. Taking advantage of prospective multiple departures requires intention, forward thinking, and, yes, a little courage. But the reward is worth it — a reinvigorated board that is genuinely aligned with company strategy and the shareholders and fully prepared to handle the inevitable surprises the business will encounter.

The authors can be contacted at lhanson@heidrick.com and lcsorba@heidrick.com.