



Board succession 2020: Three steps toward long-term effectiveness

Boards that routinely evaluate their capabilities with strategic goals in mind, maintain robust networks and relationships with executives, and establish a diverse pipeline of potential directors will be best positioned to help their organizations reset for resilience and thrive in the long term.

The question of who should sit on a corporate board has become increasingly complicated over the past decade. The world's best boards focus on developing an optimal board composition to support the company's strategic initiatives. Today, that must include greater gender and racial representation. In addition, boards are looking at the growing need for digital and sustainability expertise, as well as global and cultural depth, particularly in emerging markets. With daunting economic and social challenges ahead, who sits on the board is both critical and an important statement to stakeholders.

Yet, far too few boards, in our experience, rigorously and regularly assess their capabilities and composition to ensure they can appropriately meet these challenges. Many boards don't have a formal succession-planning process and, as a result, many operate reactively rather than proactively. So, in this moment of unprecedented change, many boards might default to relying on traditional sources and their own networks for directors. They may miss the opportunity to diversify—to bring on new directors with a potent mix of perspectives and capabilities—and fail to meet stakeholders' increasing expectations. Indeed, Heidrick & Struggles' most recent Board Monitor reports show that many boards have only slowly started to diversify their traditional criteria and to seek newer and more specialized skills as well as overall diversity.¹

High-functioning boards, however, treat director recruitment as an ongoing process through which they consistently evaluate the skills necessary for the board to succeed today as well as over the next 5 to 10 years. By focusing on three critical steps—reviewing the current composition of the board against strategic objectives, evaluating and agreeing on future needs, and recruiting and retaining new directors with diverse backgrounds and strategic expertise—boards can have a robust and strategic succession plan that will help them future-proof not only the board but the entire organization.²

¹ Heidrick & Struggles, *Board Monitor US 2020*, forthcoming on heidrick.com.

² For more on the other aspects of board structure and governance crucial to being a high-performing board, see Alice Breedon and David Hui, "A board review that accelerates competitiveness," Heidrick & Struggles, April 16, 2020, heidrick.com.

Assessing the board's current capabilities and composition

Strong board-succession planning begins with the organization's strategic objectives and purpose, an evaluation of the board's current capabilities against those goals, and identification of any gaps in skills or backgrounds. Though many boards have done a review at some point, in order to build a true competitive advantage, they should undertake such evaluations at regular intervals and examine composition, individual performance, and full board effectiveness. Boards need to be increasingly agile in their assessments, frequently revisiting plans to ensure the board's capabilities are appropriately aligned. This can happen in cycles that correspond to the end of directors' terms or as new strategic imperatives arise. At a minimum, we recommend these conversations happen annually.

Board chairs must ensure that there are clear responsibilities and leadership for the review process—likely the chair of the nominating and governance committee, with input from the rest of the board. There also should be established benchmarks for areas such as the cadence of board composition reviews, types of diversity or backgrounds required, and the improvement of board productivity as assessed by surveys. Each of these should align with and be prioritized by the organization's overall strategy and include plans for measured improvement if the results are not adequate. Tracking progress on an annual basis and holding the board's leaders accountable allow boards to be more thorough with their succession process and feel confident it aligns with the organization's overall goals.

Tenure is another important component when assessing composition, as the term limits that board members are increasingly setting for themselves don't necessarily ensure an appropriate mix of new and veteran perspectives. With no set guidelines, boards have significant discretion over how long their directors serve and when they should retire. Heidrick & Struggles' recent research found that average tenure of directors on Fortune 500 boards has fallen from 12.3 years in 2010 to 6.7 years in 2020, indicating more commitment to turnover. However, setting clear and defined term limits and not assuming that directors will automatically serve until retirement age can help with better planning and ensure a good balance of seniority on the board. While there is a benefit of having long-tenured directors—they can provide useful historic knowledge, maintain a strong board culture, and guide newer members, for example—it should not be at the expense of adding new members with expertise necessary for the organization's strategic growth. Newer directors can also shake up entrenched dynamics and culture in productive ways.

As companies are bracing to weather continued economic uncertainty, with potential restructuring and almost certain realignment of strategic priorities on the horizon, boards should discuss implementing an ad hoc board review to ensure they have the necessary expertise to guide the company through the immediate future and determine who will be best able to help the company reset for growth. Most boards will be seeking a balance of directors with experience leading during crises and economic downturns with those who have newer skills that will support a strategic growth plan. Restructuring and managing shareholder activists, in particular, can require a set of skills and knowledge that have been relatively rare on boards in recent years, from understanding the players involved to having deep financial acumen.³

Along with an analysis of skills, right now, boards should be taking a harder look at whether the backgrounds of directors fully represent their stakeholders, customers, employees, and the communities in which the organization operates. Continued global pressure to end racial injustice and inequality, particularly for the Black community, requires that executive management and boards make diversity and inclusion a top priority. Heidrick & Struggles' most recent research has found that boards in the United States have made significant progress appointing women—44% of director seats on the Fortune 500 went to women in 2019—but that progress for people of color has been disappointing: only 10% of board seats went to Black people, 5% to Hispanics, and 8% to Asians and Asian Americans. A strong commitment to diversity requires that boards consistently evaluate their composition and have sustained efforts—and benchmarks—for recruiting and attracting diverse directors.

With an annual cadence of review and adequate examination of director capabilities, boards can feel more confident mapping out their needs and developing plans to recruit new directors.

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³ Elisabetta Bartoloni and Shannon Bade, "Restructuring expertise: Bringing a new voice to the boardroom," Heidrick & Struggles, May 21, 2020, [heidrick.com](https://www Heidrick.com).

Determining future needs

As the board assesses its current capabilities and potential gaps, it should also map out what skills and experiences it will need to meet its objectives for the next 5 to 10 years. This should be a holistic view, taking into consideration multiple directors moving on and off the board, and should result in a board agile enough to adapt to unforeseen challenges.

Boards have perennial needs—directors with specific industry or regional experience, operating experience, and functional expertise in HR, finance, or IT. A deep understanding of digital transformation and how to integrate sustainable practices into supply chains or production are now also perennial needs; indeed, all directors should have some level of digital literacy.⁴

The organization's longer-term strategic goals should inform other capabilities the board needs. For example, if there are goals to expand into new regions, it would likely be beneficial to bring on directors with deep and specific geographic knowledge. Or, if the company is planning to develop or implement substantial new technologies such as artificial intelligence, appointing a director with this expertise can be highly valuable.

Diversity is another element of all boards' future needs: boards should have long-term goals and make sustained, intentional efforts to recruit directors from different backgrounds, rather than thinking of diversity as a finite goal. This approach will help boards better represent their stakeholders, customers, employees, and communities as the organization evolves.

By planning ahead, a board can be better equipped to guide the organization as it grows while also supporting its foundation.

Eight steps to better board succession

1. At least annually, evaluate board composition, individual director performance, and full board effectiveness in the context of the organization's strategic objectives and purpose.
2. Make sure a single person is accountable for that process (likely the chair of the nominating and governance committee) but that it is broadly embraced by the full board.
3. Establish benchmarks for key areas of board composition, considering peer boards or other high-performing organizations.
4. Map out the skills and experiences the board will need to meet its objectives for the next 5 to 10 years holistically, taking into consideration multiple directors moving on and off the board. Refresh and discuss these needs annually.
5. As the company's needs change, so should the board. Board refreshment through term limits, age limits, and regular evaluations against the strategic skills matrix is key.
6. Develop new recruitment strategies that challenge long-held norms about the most useful networks for recruiting and the most important types of career experience. Search broadly. Be open minded.
7. Build relationships now with potential future directors. Get to know them today for tomorrow's needs.
8. Ensure the board is both inclusive and attractive to potential directors. Test your assumptions about what inclusivity means for your board.

⁴ Alice Breeden and Scott Snyder, "Boards' role in sustaining digital transformation," Heidrick & Struggles, August 12, 2020, heidrick.com.

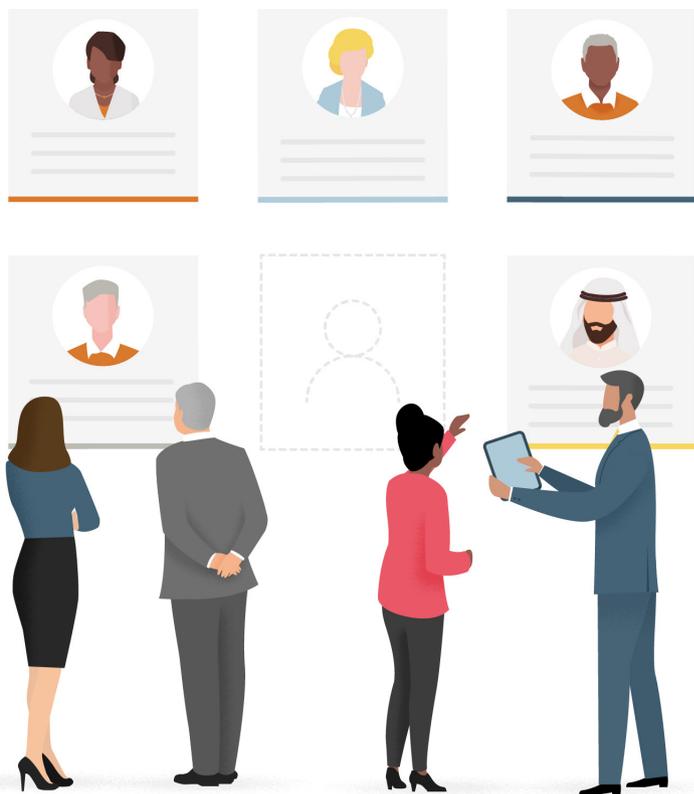
Recruiting the right people

As they begin seeking new directors, boards will need to set priorities, ranking the skills and experiences they have identified as necessary in order of importance. Boards will need to take into consideration the criticality of the various gaps in their current composition in terms of both strategy and stakeholders. For companies that are now adjusting to a long-term remote workforce, for example, adding expertise in human resources or organizational culture may trump all other concerns, while other boards may have a glaring lack of racial or ethnic diversity that stakeholders will simply no longer accept. Board chairs and nominating/governance committee chairs, along with CEOs, will need to work together to determine specific priorities and timing of recruitment.

To find the right mix of new expertise and diverse backgrounds, boards can no longer rely on their traditional networks. They will need to develop new recruitment strategies as part of their succession planning to find the directors they need.

Boards should start by testing whether the expertise they have sought with some long-standing preferences—for a public-company CEO, for example—can be found in people with other backgrounds or experiences. Broad operating experience, like that of public-company CEOs, can often be found in leaders who run large P&Ls or government and military leaders. More specialized and newer expertise, such as in cybersecurity or sustainability, can often be found in leaders who are earlier in their careers and one or two levels below the CEO. Board members often don't have the same strong relationships at those levels, but they should be willing to look there and test to see if these executives could work well with the board.

Boards need to further expand their target networks, companies, and roles to bring in diverse directors who have critical expertise and operational experience. Black people and other people of color often don't occupy C-suite or P&L roles at the large companies boards often target. Recent Heidrick & Struggles research found that people of color tend to be more concentrated in HR and marketing roles, while being seriously underrepresented in line roles. Today, only 32% of Fortune 100 executive teams have racial and ethnic minorities with P&L responsibility.



Developing relationships with potential directors is crucial for boards to excel at succession planning, especially with people who are not immediately available to join the board or when a board is hesitant to bring on more junior executives. Well-developed succession plans should include building relationships with candidates who are ready now as well as those who will be ideal to recruit over the next few years. When individuals are able to join, or once they've progressed in their careers, boards can then quickly appoint them, even if that means temporarily expanding the size of the board until another director's term expires. Being flexible in terms of board size and time of appointment allows the board the agility needed to bring on the right talent. With relationships already established, it may also be clearer how the new director will fit in and advance the culture of the board.

The board, along with the organization as a whole, must also be attractive and inclusive to potential directors. In our experience, high-functioning boards that attract the best talent are those that are driven by a clear purpose, have streamlined processes, are agile, and respect individuals' views while building a broader board perspective. High-performing boards also balance the need for near-term profit with longer-term sustainability and understand the needs of all of their stakeholder communities.⁵

The pressure on boards to find the very best directors to help guide organizations through and beyond the challenges of 2020 will undoubtedly become even more pronounced as the economy stabilizes and society continues to push for greater social and economic justice. Even with their growing responsibilities and uncertainty about the future, we know that boards that routinely evaluate their capabilities with strategic goals in mind, maintain robust networks and relationships with executives, and establish a diverse pipeline of potential directors will be best positioned to help their organizations reset for resilience and compete in the global market.

⁵ Alice Breeden, David Hui, and Anne Lim O'Brien, *Future-Proofing Your Board*, Heidrick & Struggles, May 29, 2020, heidrick.com.

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