

## Board assessment and succession planning

Boards are under pressure from all corners to demonstrate their value. One key to board performance is building a culture of continuous improvement. To do so, many boards are taking a regular, honest look at both the board's overall performance and the contributions of each individual director. They are also adding new directors who bring skills, background, and expertise that are linked to their companies' forward-looking strategy.

On October 17, 2022, Lead Director Network (LDN) members discussed board assessment and succession with guests Anthony Goodman and Tierney Remick of Korn Ferry. Directors shared perspectives on the most important parts of assessment, how to handle director underperformance, the new skills they are seeking on their board, and how to set new directors up for success.

This *Summary of Themes* provides a brief overview of the meeting. It uses the term "lead director" to refer interchangeably to the titles lead director, presiding director, and non-executive chair, unless otherwise stated.

*For a full list of meeting participants, please see page 4.*

The discussion coalesced around four key themes:

- **Assessing board performance is a continuous exercise.** Board evaluations are no longer check-the-box exercises; they are now designed to uncover problems and spark change. Boards are having more—and, in many cases, better—conversations about their own performance. One member said, *"Our board believes in the importance of having ongoing discussions about how we are doing during the year—not just one big discussion at the end. We allocate time in executive sessions after every board meeting for this, complete self-evaluations, and solicit feedback from management. Everyone knows where they stand at all times."* Mr. Goodman said that even as boards have these ongoing dialogues, it is important to maintain formal reviews too: *"Good board evaluation practices are typically led by the lead director, are interview based, and sometimes involve members of management. Many supplement that with a third-party review every few years."* Members added that it is also helpful for directors to compare performance across their own boards. One said, *"A natural benchmarking occurs when the directors sitting around the table are also sitting on other boards; they have an inherent benchmarking capability from experiencing other evaluation processes and practices."* Members were interested in how stakeholders evaluate their boards. Mr. Goodman said, *"When your investors talk about board quality,*

*they tend to focus on things, like composition, that they can see from the outside. It can be helpful to disclose more about what you do to supplement their impressions.”*

- **Underperformance must be addressed, but delicately.** Lead directors discussed the challenges of dealing with a disruptive or ineffective director. As a starting point, it can help for a board to agree on a defined set of behavioral expectations. According to Mr. Goodman, performance issues among directors tend to be correctable: *“Usually it’s ‘this person talks too much or not enough, they dominate every discussion, they are creating more work for management,’ etcetera. The good news is once someone has that feedback, they can stop. If they decide not to, the board can elect to end the behavior by asking them to leave.”* Lead directors emphasized that it is important to scan for unconscious biases before concluding that there is a problem. One director raised a flag about the use of the term “fit”: *“‘Fit’ can be used to challenge those that are different—and it’s everyone’s responsibility to make sure that diversity and inclusion efforts work. As a lead director, make sure you are scanning your board to ferret out biases that some people may unintentionally have.”* It is important to allow a director the time to change unwanted behaviors; if the conduct cannot be remedied, one member suggested keeping the process respectful: *“We try really hard to make it their idea to leave the board.”*
- **Diversity in all forms is highly valued.** Over the last few years, there has been a push to bring diversity of age, sector, background, experiences, and skill sets into the boardroom. One consequence of this push is that boards are looking in new places and deeper into organizations for new directors. Ms. Remick said, *“We are seeing boards be very intentional about where they need to go from a strategic perspective and what are the skills and experiences that will be most beneficial today and over the next five years.”* The pressure to compose a diverse board has led some boards to get creative. One lead director said, *“We found two board members that were particularly capable and available, but we had no open board seats—so we expanded the board for a few years so as not to lose them. We then dialed it back as natural succession occurred.”* Another member discussed tough but necessary decisions: *“Everyone on your board is there for a reason, but sometimes making changes as people roll off is not fast enough. We have told individuals who were performing fine that we would not invite them to stand for reelection due to the need for new skill sets. We try not to surprise people, but it’s not an easy conversation.”* The skills members are currently seeking for their boards range from digital marketing to cybersecurity to financial expertise. Ms. Remick shared the trends her team is seeing: *“We are seeing firms seek CEOs or recently retired CEOs, finance function, a multidisciplinary approach to profit and loss leadership, chief human resource officers, technology-sensible experts. The global perspective has really come back as well.”*
- **New director onboarding programs benefit from ample planning.** Board succession has been accelerating for several years. Ms. Remick said that because of this, *“over 50% of Fortune 1000 directors are first-time directors, shifting the balance of actively employed and*

*retired board members—with the increase in actively employed directors being quite dramatic.” Given the number of first-time, actively employed directors, boards need strong, customizable onboarding processes. One member said, “The notion of a board buddy or mentor is so important. When I was starting out, I was a full-time executive, and my natural inclination was to sometimes go below the line and get into the detail. Having a board member I could connect with before and after the meeting for feedback and questions was tremendously valuable.” Lead directors also stressed the importance of including industry-specific training and subject matter lessons in the process. Ms. Remick added, “Historically, onboarding has been about the company, the business, and the management team and not so much about the board and its culture and communication style. We are seeing onboarding become more formalized to help new directors contribute more quickly.” One member emphasized that director education initiatives should not be focused entirely on new directors: “Onboarding is important, but what I struggle with is understanding how directors are keeping themselves up to speed on topics and skill sets over time.” Mr. Goodman responded that “inviting sitting directors to new director onboarding sessions under the guise of building social relationships within the board allows them to save face while also getting a desired refresher.”*

## About this document

*Summary of Themes* reflects the network’s use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments made before and during meetings are not attributed to individuals or corporations. Guests, however, have given permission for their remarks to be attributed. Comments by guests and network members are shown in italics.

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## Meeting participants

- H. James Dallas, Non-Executive Chair, Centene
- Anne Gates, Non-Executive Chair, Tapestry Inc.
- Fritz Henderson, Lead Director, Marriott International and Non-Executive Chair, Adient and Arconic
- Michele Hooper, Lead Director, UnitedHealth Group
- Molly Joseph, Non-Executive Chair, First Solar
- Mel Lagomasino, Lead Director, The Coca-Cola Company
- Bob Murley, Non-Executive Chair, Stericycle
- Stu Randle, Lead Director, Beacon Roofing Supply
- Pam Reeve, Non-Executive Chair, American Tower
- Pat Russo, Non-Executive Chair, Hewlett Packard Enterprise and Lead Director, General Motors
- Ted Samuels, Lead Director, Bristol-Meyers Squibb
- Abhi Talwalkar, Non-Executive Chair, Lam Research
- David Herzog, Lead Director, DXC Technology
- Madeleine Kleiner, Lead Director-Elect, Northrop Grumman

Korn Ferry was represented by Anthony Goodman, Senior Client Partner & Head of Board Effectiveness Practice, and Tierney Remick, Vice Chair and Co-leader of Global Board and CEO Practice.