

Selecting your next nonexecutive board leader

Like any good board member, this individual should be attuned to strategy and possess subject matter expertise. However, there are some quite specific characteristics and considerations that come into play in this uniquely demanding role.

BY THEODORE L. DYSART AND BONNIE W. GWIN

OVER THE PAST DECADE, boards of directors at many companies have dramatically improved their handling of CEO succession. They have put in place long-range succession planning; they complete in-depth assessments of internal candidates; they scan the external market for potential candidates against whom they can benchmark internal candidates; and they continually review their plans. Some boards may have been reacting to pressure from activist shareholders and SEC rules like the 2009 directive concerning shareholder proposals for the disclosure of CEO succession planning policies. But, in our experience, many boards tackled the responsibility for CEO succession planning because they do what the best boards regularly do: lead, not follow, in matters of good governance.

Now it is time for boards to get out in front of a closely related issue — the succession of the nonexecutive leader of the board.

Whether it is the succession of the lead director in a company with a unitary chair/CEO or of the nonexecutive chair in a company where the roles are split, boards should bring the same rigor to this succession challenge as they bring



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to that of the chief executive. Currently, 27% of Fortune 500 companies have a nonexecutive chair and 56% have a lead director, and the numbers are likely to

grow in the future. Although we believe that each board must decide on which governance model works best given the company's board and circumstances, most observers agree that the trend toward some form of the nonexecutive leader of the board will only grow stronger.

A comprehensive approach to succession of the nonexecutive board leader consists of three essential components: long-range planning, the process for selection, and the criteria for selection. Through careful attention to all three elements — planning, process, and criteria — boards can ensure that their selection will produce not just consensus but real alignment: the enthusiastic welcome of the choice by executive and nonexecutive board members alike.

Long-Range Planning

Genuine long-range planning for board succession is an ongoing process, not a 'one-and-done.' Best-practice planning encompasses multiyear time horizons and should be reviewed annually. It provides the larger context in which selection takes place and, handled thoughtfully, should produce outstanding candidates when the time comes to make a choice. Based on our experience working with boards on nonexecutive

leader succession, the following guidelines can help ensure a successful long-term plan:

- *Begin development of future candidates far in advance of succession.* Many boards do little to proactively develop future board leaders. They could, for example, groom potential leaders by rotating members through various committee chairmanships. These assignments would give them a detailed grasp of the board's work across all of its areas of responsibility — from fiduciary responsibility, to compliance, to governance. It could also help ensure that multiple worthy candidates will emerge. Such development plans, however, will require far-seeing boards to buck the trend of extreme specialization that has taken hold on boards in recent years.

- *Introduce predictability into the planning cycle.* Succession shouldn't come as a surprise. An orderly and predictable process could include term limits for the nonexecutive leader. For example, the leader could serve a three-year term with a potential for a renewal of three years. Discuss the subject and agree on what fits for your board at the beginning of a new leader's term, not at the end.

- *Assess future needs.* Having established a predictable time horizon, you can then map the capabilities the next leader will need against the company's long-term business strategy. Someone with the right mix of capabilities can't be developed overnight. But by assessing future needs, you can make sure that development is shooting for the right targets.

- *Manage the pipeline.* It is entirely possible, as happened with one of our clients, that the board may be facing a future in which there will be only one viable candidate for the position. Boards can find themselves in this position for

a variety of reasons: the coming retirement of board members, outside obligations that will prevent otherwise worthy candidates from taking on the job, or the simple lack of people likely to have the requisite capabilities when the time comes. So, in addition to developing current members, the board should seek to



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fill vacancies with people who can give the board more than one option for the future. Simply put, one option means no options.

The Selection Process

The selection process itself should adhere to the procedures and policies that experience has shown provide rigor, fairness, and appropriate input from all parties. Best practices include:

- *Delegate management of the selection*

process to the nominating/governance committee. This committee should not only oversee long-range succession planning for the position, but also run the initial stages of the selection process itself.

- *Identify all aspirants before forming the selection committee.* The chair of the nominating committee should ask that all independent directors who aspire to the position identify themselves. Nominating chairs and any committee members who want to be considered should recuse themselves from further involvement in managing the process and turn it over to someone else on the committee. The chair of the nominating committee, if he or she is not in the running, or the alternate, if the chair is running, then chooses the members of the selection committee — a good number would be three — from among the independent directors who have not declared an interest. They will assist the chair in interviewing all of the candidates, sifting through their qualifications, and making a recommendation to the full board.

- *Be clear about the CEO's role in the selection process.* In keeping with the principle of board independence embodied in structures that split the chair/CEO role or use a lead director, the CEO should not dominate the process. Certainly, the selection committee should sound out the CEO about the candidates, since a good relationship between the CEO and the nonexecutive leader is a paramount consideration in the choice. The CEO should also have a vote, but the CEO should neither make the choice nor have a veto. Most good CEOs don't want a rubber-stamp nonexecutive board leader, but human nature being what it is some CEOs, if given the choice, might prefer the most malleable, rather than the most measured, candidate.

- *Consider external candidates only in special circumstances.* Rarely should you look outside the current board for the next nonexecutive leader. Lacking prior relationships with other board members

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or with management, even the best external candidates could find it difficult to lead effectively. The circumstances in which it might be advisable to go outside include a major company crisis, the appointment of an entirely new board (as in an IPO) or, in some isolated instances, the lack of any credible candidate on the board. Otherwise, look inward.

- *Complete the process in a timely manner.* If predictability has been established as to when a succession will take place, then time should not be an issue. The nominating committee should be able to plan its work against the succession date. In unforeseen successions, however, the committee will lack that luxury. To avoid the drift that can set in when there is a lame duck for a lengthy period, they should then typically aim to complete their work in less than six months.

Criteria for Selection

The criteria for selection of a nonexecutive board leader include general attributes that any leader should have — integrity, influence, the ability to build consensus and alignment, to command respect, and to inspire trust. And like any good board member, this individual should be attuned to strategy and possess subject matter expertise.

However, there are also some quite specific characteristics and considerations that come into play in this uniquely demanding role. Three of the most important questions to be answered are:

- *Does the candidate have good chemistry with the CEO?* Good chemistry does not mean that the board leader and the CEO should be close friends. In fact, most observers would agree that they

should maintain a measure of personal distance. But they must be able to work together well, forging a collaborative relationship based on mutual respect, good communication, complementary skills, and good will.

Good chemistry becomes particularly important during significant events in the life of the company — an acquisition, a takeover attempt, a major asset

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decision, or a major strategic shift — when the CEO and nonexecutive board leader must pull together, present a united front, and communicate a consistent message.

- *Does the candidate have the courage to resist the CEO when appropriate?* Working well together isn't enough. The nonexecutive leader must be willing to be honest with the CEO at all times, withholding nothing, including disagreement. The nonexecutive leader must be particularly careful and thoughtful when a CEO is pushing momentous plans that could lead to significant changes in shareholder value. In such situations, the nonexecutive leader is obligated to bring balance and perspective to the decision, even if it

means speaking unwelcome truths.

- *Does the candidate have the leadership characteristics required for the dual nature of the position?* The nonexecutive board leader must act as an intermediary between the independent directors and management, communicating, advising, and collaborating in both directions. In many cases, the lead director is not simply a conduit for information but performs an even more valuable function by building consensus on particular issues and enabling the company to move forward. He or she must be able to balance the sometimes conflicting demands of this dual focus, bringing extraordinary tact and subtlety to a role that requires diplomacy, not daring vision.

Board members who have succeeded in their careers as assertive, commanding leaders may lack the temperament for this kind of patient, collaborative role. The right person for the job should be able to move adroitly back and forth between a strong CEO and a highly engaged group of independent directors, providing a focal point for both that promotes the overall good of the company.

It is worth recalling that the goal of board independence is not independence merely for its own sake. The goal is a better performing board and a better performing company that generates strong returns for shareholders over the long run. As the boards that pioneered comprehensive CEO succession planning know, there is no better reason for rigor and foresight in such processes. ■

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