

Governance Watch™ Webcast #1: Best Practices in Board Succession Planning

In the ever-evolving market, boards must carefully consider how they will both lead and adapt along with their organizations. In our inaugural webcast, we explore how succession planning enables boards to leverage their composition as a competitive advantage and face the challenges of today's corporate landscape.

Our guest is Stephen Wagner, Governance and Nominating Committee Chair, Dover Corporation; the webcast is moderated by Kim Van Der Zon, Head of the Egon Zehnder Global Board Practice, and Doug Chia, Executive Director, The Conference Board Governance Center.

Doug Chia: I'm Doug Chia, executive director of The Conference Board Governance Center. In light of the increasing demand for proxy access at public companies in the United States, investors are seeking to understand better how boards plan for when directors step down, whether because of mandatory retirement age or otherwise. Today we have with us Steve Wagner, who is a director at Dover Corporation, a large diversified manufacturer. In addition to being a member of the audit committee at Dover, Steve is also the chair of the governance and nominating committee. We also have with us Kim Van Der Zon from Egon Zehnder, and she's going to have a discussion with Steve about the subject of director succession planning. Kim?

Kim Van Der Zon: Thank you Doug. Board succession planning is a real trend. There's been so much progress on this front, and we have so many clients asking about succession planning as opposed to one-off board director searches. Steve, you have seen this up close and personal. Why do you feel that boards are so much more interested in this future planning, holistic planning, as opposed to doing board searches as the needs arise?

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Stephen Wagner: I think the first driver for the answer to that question is really working in the interests of our shareholders. Our shareholders have a very loud voice today, much different than they were willing to acknowledge in the past. They would really like to have a greater level of influence over what we do and how we do it. Accordingly, they are keenly interested in assuring that there is a fresh perspective in the boardroom. That's not with a critical eye to the past necessarily. It's really more toward a view to the future, recognizing that we live in a very dynamic world that's fast-changing.

We want to make sure that the board is continually composed of the right talent and skill, that's capable of understanding the risks and the opportunities that exist in the business world today. To do that, we need to continually think about refreshing the talent and skills on the board, because like any situation, people can become a little bit complacent and vulnerable to group think, the notion that we were better off when we all think more alike than differently and we're better off when we all like each other. Those social dynamics which are typical in any group can have a negative influence on the willingness to challenge ideas and thoughts, and to bring the best thinking to strategic issues that the companies may be facing.

Kim: Makes sense. I know that when clients ask us about succession planning, they're very interested in the key principles to success. How should a board think about succession planning? What are the key tenets?

Stephen: I like to describe it in a manner that suggests that we need to think about this as a process, not as a project. This is not something that we are going to go and do and fix, and it's once and done. What we need to do is be thinking about board refreshment and succession planning as an ongoing process that frankly builds on itself over years and compounding year after year after year as you get better at it. You are in essence integrating new thinking into your board processes on an ongoing basis. That also requires obviously that you be thinking about how you're going to access that talent over time as well, and how you plan for retirements as they might be occurring in the future.

Kim: Clients also ask us then, if those are the key principles, how do we best go about making sure that we have a really effective process? There are lots of terms that are bandied about in terms of board matrix, competencies, diversity, lots of different elements that get thrown into the mix. Boards often want to know, how do I make sense of this?

Stephen: That's a great question. I'll tell you, one of the things that happen when you sit on a board is you look around the room, you say, "We're not so bad. We're a pretty good board."

Kim: Yeah, exactly.

Stephen: "We work hard. We bring the best of our thinking to the fore at every board meeting. We think about the company and its strategy outside of the board meeting. We execute our committee responsibilities effectively. Why do we need to change?" I mentioned the drivers of that change previously, but the approach to take I think is one that has a number of facets to it. I think the first

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and foremost thing that you need to understand is, what's the thinking of the current board? Have a discussion at the board level about succession planning, at the full board, not just an individual committee. Have the board engage with itself about the importance of refreshment. There you get buy-in and you build a positive momentum and an inertia to get the program started.

Kim: Can I interject?

Stephen: Sure.

Kim: What role ideally would the chairman play and the nom and gov chair play in that particular process?

Stephen: I think the chairman and the chair of governance and nominating are partners in this effort. I think that they really need to work together to coordinate the messaging and the building of support for this process to occur and to be sponsored by the board over time. Keeping in mind that this is to most organizations a change, and change often comes hard. People wonder why we need to change. Does it mean we're not doing a good job? The answer is no. What it means is we're trying to prepare for the future. We're trying to do a better job of matching our skill sets going forward with the company's strategy as it evolves.

Kim: Have you heard any pushback from directors in terms of, if person X is stepping off the board, they have a set of skills and capabilities and experiences, why not just replace that?

Stephen: That's a good question. The reason why is because to do that is assuming that the mix of skills that you have today is the right mix of skills for the future. My assertion would be that's probably not the case. The best way to determine that is through discussion with ... I like to engage in dialogue with our CEO to understand his view of the future, where our company is going, what are the strategic issues and risks that we're going to be facing in the future, and how do those challenges, when you translate them into challenges, how do they match up against our existing skill set and experience that we have on the board today.

Now you have to organize your thinking around that, and the best way to do that is to create a tool which is commonly being discussed today which is called a skills matrix. To develop that requires dialogue with each individual member of the board and aligning across a framework how you're going to populate the skills that exist on the board today, and then match that against the skills that would be required in the future, and at the same time identifying white spaces that may exist today, where we could be shoring up some of our existing skills to meet the needs that we have today, because there's no guarantee that you have the exact perfect set of skills and experiences at any point in time.

Kim: Right.

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Doug: What about the role of a third party advisor in this? Sometimes an outside perspective helps, whether it's a search firm or some kind of consultant, management or leadership consultant. What's your ...

Stephen: Good question.

Doug: What's your impression of that?

Stephen: I'm a big proponent of seeking outside assistance. I feel that way for several reasons. I'd say the most important reason is objectivity. I think it's very difficult for any board member to be objective about the skill sets of their colleagues. The reason is because you have your own individual biases perhaps, but you've worked so hard to either become liked and have them like you, and you want to like them and so forth. You become somewhat blind to an objective evaluation of those skill sets. I'm a big advocate of bringing in outside advisers to provide assistance and also to help us with dealing with the dynamic nature of what it is we're trying to do. It's ever-changing. We're very busy people. It's hard for us to stay on top of this. One of the most important elements of this program is that it is continually refreshed, that we are constantly looking at the shifts in our organization and what kinds of things we are doing today or in the future that may impact skills that we may need five years from now that we want to be searching for today.

Kim: How far in advance should boards be thinking about this? They can see that they have upcoming retirements. Sometimes it's not for another five years. At what point should they sit down and strategically map this out?

Stephen: Today is the answer to that. Let me give you a for-instance in terms of how to think about this. As you look at your alignment of board members and their assignment to the various committees and the assignment of committee chairman roles, at both the committee level and at the chairman of the board level, it's important to keep in mind how those positions are going to change over time and to recognize who might be likely candidates within the existing board to fill those slots and to identify in an honest, objective way whether you may not have the right people to fill those spots in the future. That's a driver.

Another driver is what's going on with the CEO. CEOs have a unique set of skills and competencies on their own. You may have customized the board skills and mix to best complement what the CEO brings to the fore. If the CEO is scheduled for a near-term retirement, let's just say, and keeping in mind that today the average tenure of a CEO is less than six years, it's five-and-a-half years or something like that, so you have to be thinking about the potential of having a new CEO and the kinds of skills that are going to be best suited to help that person get up and running as quickly as possible and be as effective as possible.

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Doug: For the role of the CEO in this process, I know some investors get concerned that maybe the CEO plays too big a role in selecting their own board members, especially if that person is also the chair of the board. How do you reflect on that?

Stephen: We have to learn from past lessons. One of the big problems that corporate governance faced, one of the big challenges it faced 15, 20 years ago, was this notion that the board was a club for the CEO. In fact, all the people had been handpicked by the CEO and therefore they were not inclined at all to provide any reasonable challenge to the thinking and development of strategy. We certainly don't want to ever slip back to that time again. We need to make sure that the CEO has a voice and an influence in the process, and that we ascertain his needs or her needs as closely as we can, without allowing them to control the process, to make final decisions about who we get on the board and who we don't get on the board, but rather to be someone who has a great deal of influence into the process.

Doug: Got it.

Kim: How do you consider diversity in this sort of a future-looking viewpoint? How do you make sure that you incorporate it? How do you make sure you inculcate that within the boardroom itself?

Stephen: Diversity as a concept is embedded into the whole notion of refreshment, because what we're looking for is a more diverse point of view. That diverse point of view can be established through a variety of different means, whether it be different career paths of individuals who sit in the boardroom, different ethnic diversity, foreign nationals for example, gender diversity. All of those elements add a different point of view to the room. I believe that it's important to have different perspectives being shared around the table, because what happens is the conversation becomes much richer. It really starts to take paths that you may not have anticipated when the conversation began. You begin thinking about the what-ifs and the potential risks that you may never have considered in another kind of conversation with people who look like you, talk like you, act like you, and think like you.

Kim: That's right.

Doug: At this point, we're probably going to have to pause until next time. I think this was a very rich discussion. Kim, I'd like to thank you and Steve as well. We will see you next time on Governance Watch. Thanks.



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