

# What Keeps Nom Gov Chairs Up at Night?

Companies serious about gaining competitive advantage and producing returns for shareholders are discovering that all roads lead to the board. Whether the issue is devising a strategy to guide the company, elevating the importance of CEO succession planning, or developing a leadership pipeline, the board is front and center, often orchestrating and overseeing crucial processes that lie at the heart of high-performing companies.

The board's success in executing its growing list of critical duties depends on assembling the best directors around the table and that, once recruited, they are active, engaged contributors who want to remain.

The hub of all this activity is the nominating and governance committee and committee chair. Not surprisingly, these committees and their leaders are being closely scrutinized by investors and the media and held to a high standard.

What is on the minds of nominating and governance committee chairs, and what practices are they relying on to achieve needed results? There are two principal categories: 1) ensuring the right mix of directors on the board, and 2) retaining the right directors.

#### LESSONS LEARNED FROM CEO SUCCESSION PLANNING PROCESS

Board composition has increasingly become a lightning rod for activists, making many boards vulnerable on this issue. Boards that are targeted by activists, whose agenda is sometimes to gain a seat or more on the board, are those that resemble the past more than the future. Perhaps they are found lacking by traditional diversity measures, such as gender and ethnicity, or by measures more closely linked to company strategy, such as specific functional, industry, and geographic expertise.

The challenge of assembling and maintaining optimal board composition, in line with the strategy, has spurred more boards to focus less on one-off recruitments and more on a systematic and thoughtful recruitment process. The result is board succession planning, which, much like CEO succession planning, seeks to align director recruitment with the strategy and the skills and experience across the director team that will be required to effectively support it.

"We see board succession planning as an emerging best practice," says Robert Hallagan, Co-Leader of Korn Ferry's Board Practice, "A key characteristic of a high-performing board is having the right people at the right time. That calls for a continuous alignment of the skills and competencies on the board, and syncing with the board's most challenging issues and major risks. How do they stack up? Is the board up to task? If not where are the gaps and what is needed? The view, like the forward-looking strategy, is toward the future, not the past or present."

In addition to assessing the skills and experience represented by individual directors and filling critical gaps, nominating and governance committee chairs must also keep a close eye on board and committee leadership positions. "For the board to operate effectively, there can't be gaps in overall board leadership, nor in key committee leadership," says Hallagan. The current board leader and the chair of the nominating and governance committee should plan carefully for any transitions to ensure the leadership bases are always covered.

The nom/gov committee is the epicenter of many of the board's most critical responsibilities now, from Board succession planning to the Company's comprehensive governance policies and disclosures to board evaluations. Locking down proven processes for all of these duties is the linchpin to overall board effectiveness.

Joan Conley,  
Nasdaq Senior Vice President  
and Corporate Secretary

## DIGGING IN ON BOARD EVALUATIONS

Given the long-established trend for boards to be leaner and more agile, adding new directors with needed new competencies may necessitate removing others. High-performing boards take the task of board evaluations seriously as more than a "check the boxes" exercise.

These boards recognize that board evaluations and maintaining a board team with an optimal balance of skills is an important metric on which external organizations and investors rely. They also recognize that lack of attention to these areas can send up a red flag, making them a target for activists who may believe they can do a better job running the company and are prepared to exploit these weaknesses.

The board evaluation process is likely to touch on sensitive issues, especially if an evaluation of directors' skills and relevance to the strategy reveals directors who are no longer relevant. "With a focus on continuous improvement, board leaders have to respectfully manage the transition of less-relevant or non-performing directors who are not adding value to the board," says Hallagan.

He encourages self-reflection on the part of directors. That includes suggesting they evaluate their own contribution by asking themselves: Given the future direction and challenges of the company are my skills still relevant and adding high value? If the board were to search for a new director, could they find someone with skills more relevant than mine for future challenges?

Some directors may welcome the opportunity to assess themselves and bow out gracefully if they come to the conclusion that a new director can add greater value.

Because board evaluations, when done in-depth, explore directors' individual contributions and other personal issues, many boards seek outside support to ensure an objective, professional process. Stuart Levine, chairman of Broadridge Financial Solutions' nominating and governance committee, says, "Our board assessments are always delivered through an independent entity. We've found it's the best way for the board to get a fair, unbiased view of how well things are functioning, and to surface any underlying issues that could potentially disrupt the business."

Done properly, a board evaluation should enable deep conversations among directors on what work is required to operate more effectively. "An independent assessment provides an intelligent burning platform for constructive engagement on board succession planning so we can attract the right next-generation directors," says Levine.

## REFRESHING THE BOARD

Once a board has closely examined the strategy and how well the current team matches its demands, it may identify skills and experience needed but not represented on the board. That's inevitable since the strategy is a morphing target and board membership has to be refreshed regularly to remain a strategic asset.

The board, through its nominating and governance committee, will create director profiles designed to guide a director search, and beyond any new competencies sought, the board may also seek to cover a number of additional requirements.



Increasing diversity on boards is now a key consideration, and understood as more than gender or ethnic diversity. Infusing the board with fresh thinking – by adding directors from new, needed function, geographies, even age groups – enriches discussion and decision-making, and ultimately the value of the board as a strategic resource to the company.

Because director additions are now often a departure from the traditional CEO director, boards should have an onboarding plan to ensure any new directors, especially first-timers, can quickly ramp-up and become contributors. After all, they were recruited because they presumably have something new and valuable to add.

### RETAINING THE BEST DIRECTORS

It's a challenge to identify and recruit the directors who will prove real assets to their boards, and, once recruited, boards should work to hold on to them.

While most directors are not primarily motivated to serve for the compensation, it is a consideration, and everyone wants his or her efforts to be recognized and appreciated. This is increasingly true as the time and risk associated with board service has escalated significantly in recent years.

That means boards and their nominating and governance committees should regularly benchmark director compensation with peer companies, and stay on top of compensation trends, to make sure their own practices are not outliers, but fair to both directors and shareholders.

Finally, to attract and retain the best board members, maintain high standards as a board and as a company. Everyone wants to be part of a winning team – and conversely will avoid joining a board where there has been even a hint of impropriety.

"The real responsibility of directors," says Levine, "is to make sure the ethical tone of the organization is where it should be, and that corporate culture is a strategic weapon based on adherence to strong values and ethics." Therefore, it's important, he says, for the nominating and governance committee to be looking at related metrics on a regular basis if it hopes to recruit high-quality directors.

The culture of the board and company can become key differentiators when competing for scarce talent, says Levine: "Each of us has an individual brand and the best directors and employees want to know for certain any organization they affiliate themselves with is beyond reproach."

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