

Passing The Board Chair Baton

by Karen Bohn and Sandra Davis

While chief executive succession planning has developed into an art over the years, the relative newness of the independent board chair in the U.S. means preparation for this vital leadership role remains weak. How does the board effectively identify, train, assess and onboard its next board chair?

While much has been written about CEO succession, far less attention has been paid to the equally critical topic of *board* leadership succession. All too often, the role of board chair is determined by default rather than planned determination. When the time comes to designate a new board chair, the conversation can be: “Who is our most senior director?” “Who is our governance chair?” “Who wants the job...anyone?” With an approach like this, board chair selection seems left to chance.

The *2016-2017 NACD Public Company Governance Survey* found that just 36 percent of boards had drafted or reviewed a formal written CEO succession plan in the prior 12 months. If nearly two-thirds of these directors have not developed a succession plan for their CEO, what chance is there that they have a succession plan for their chair? The likely answer: slim to none.

Turnover in the role of independent chair or lead director is not an everyday event. The *2016 Spencer Stuart Board Index* revealed that 31 percent of independent chairs have been in their roles six or more years, and 92 percent had served on the board prior to being elected. In fact, the average tenure of directors prior to being elected was roughly eight years. No wonder we cannot find much about best practices in board chair succession—it does not happen that often, and there are few examples of how to approach it.

We believe directors can and should get ahead of the game by deliberately discussing and deciding the competencies they expect from their chair. Additionally, ensure an effective leadership transition by establishing processes for preparing, identifying

and eventually selecting your next board chair.

More than a century and a half ago, Louis Pasteur famously remarked “Chance favors only the prepared mind.” What Pasteur meant was that sudden achievements do not just happen, but rather are the byproduct of careful preparation and follow-up.

Perhaps you have a tremendously able and talented board chair. If so, congratulations on your board’s good fortune. Yet board chair succession planning is not just about happening upon the right person at the right time for this vital role. Rather, it is about creating and preparing a board culture that champions the professional development and advancement of its members. Engage all directors in the succession process (and not just a select few, behind the scenes), and foster appreciation for smooth leadership transitions in both the boardroom and C-suite.

“As a former board chair, I have found that being very transparent in communicating about the process and recommended candidates for board leadership fosters a culture for trust and a culture for candor on the board,” says Reatha Clark King, former president, executive director and chair of the General Mills Foundation, who in her career has served on more than 20 corporate, non-profit and civic boards. “If the entire board is fully engaged in board discussions and key business decisions, it is usually apparent who the best candidates are for board and committee leadership positions.”

In a five-step process, we lay out the ideal background of a board chair and the importance of boards defining the role. We map out a sound and repeatable chair selection process that helps to identify viable candidates while engaging the CEO. We conclude with recommendations for transition planning and board chair development.

□ **Step One: Define the chair role.** It is tempting to talk first and foremost about possible chair candidates

Karen Bohn is president of Galeo Group management consultants, and **Sandra Davis** chair of MDA Leadership Consulting. [www.mdaleadership.com]

Start With A Job Description Unique Contributions Of The Board Chair

- Plan agenda with the CEO.
- Chair meetings and keep the discussion on track.
- Ensure the meeting has “enough white space” for discussion.
- Conduct executive sessions.
- Provide oversight of and/or participate in all committees.
- Deliver feedback to the CEO (formally and informally).
- Offer guidance to board members (especially new members) on their roles.
- Speak individually with board members on key topics.
- Be a sounding board for the CEO.
- Optimize the relationship between the board and management.
- Be a business partner to the CEO, helping to achieve the mission and vision of the company.
- Assure that the board fulfills its responsibilities for the governance of the organization.

before the board has defined the role. It is no doubt easier to make assumptions about the chair role (“we all know what the chair does”) and leapfrog right to the people and the options available.

Yet if you wish to approach board chair succession thoughtfully and strategically, your initial steps should define the chair role and the ideal background for this position. Consider all the facets of your company, including its sector, size and stage of development, as well as external factors, such as consumer or regulatory trends.

Then, use this information as the basis for crafting your role description for the chair, including desired specific knowledge and experience, responsibilities and professional attributes. Lastly, determine your expectations for this role, and the evaluation criteria you will use to determine effectiveness.

For example, if your company is in a high-tech industry, your board chair’s expertise in this technol-

ogy could prove tremendously beneficial in leading the rest of the board and working with the CEO. Or, conversely, you might decide that what matters most in your board chair is not specific industry knowledge, but rather high emotional intelligence and strong governance and organizational abilities.

Think about the best chairs you have observed and define what you need for your board. Effort put into defining the role will also pay off in helping define ideal attributes.

“Being board chair is like being an orchestra conductor,” says Steven Fritze, retired CFO of Ecolab and director of the boards of M.A. Mortenson, Wenger and Otter Tail. “You need to get the best performances out of everyone, at the right time, on the right pitch and on the same piece of music, as well as cutting things off gracefully.”

To Fritze’s point, being board chair is quite different from being a board member. The chair thinks about how to bring up the right topics for discussion, how to keep the board on track, how to keep the conversation at the right level and how to ensure that all voices are being heard.

Think about the best chairs you have observed and define what you need for your board. The effort put into defining the chair role will also pay off in terms of helping define ideal attributes and capabilities for new directors, as well as in providing current directors with leadership and development opportunities.

Keep in mind also the professional rigors and commitment required for the chair role. “The first thing is the ability to spend the time. That is a huge criterion, as the board chair typically attends all committee meetings” says David Brandon, chairman and CEO at Toys “R” Us, chairman of Dominos and board member at Herman Miller. “The chair needs to be a well-rounded ‘board athlete’ because he or she is going to be involved in everything.”

Step Two: Create a chair succession process. It is not enough to say “I’m sure we have some sort of process” regarding board chair succession, or believe you have it “covered” because your longest-tenured

Start With A Timetable

Sample Board Chair Transition Planning Grid

	Tenure of Current Chair	Remaining Years to Mandatory Retirement	Leadership Transition Target	Begin Transition Activities and Selection
Board Chair	7 years	10+ years	Check in: 2020	TBD
Audit Chair	1 year	8 years	2024	2023
Compensation Chair	2 years	4 years	2021	2020
Nominating/Governance Chair	8 years	2 years	2018	Now
Risk Chair	4 years	10+ years	2020	2019

director or governance chair always moves into the role. While corporate governance guidelines might suggest an approach for board chair selection, many company boards lack any well-articulated process for board or even committee chair selection.

A great place to start is to ask the question, “Whose job is it to articulate the process?” Boards have several choices. They can include it in the governance committee charter, they might consider establishing a separate succession committee, or they can include it in the responsibilities of the board chair. In any event, gaining clarity is a great place to start.

A real succession process at the board level also means thinking about what might be needed to prepare someone for the role. In lieu of any specific requirements for serving as board chair, think about what is preferred. For example, this could include the optimal preparatory experience or committee roles that your board deems important for a director to be “ready” to become chair.

It could also include specific board experiences or competencies required to take on the role. “For example, having good experience on other boards, with ample opportunity to have watched other chairs to see how they work, including what worked well and what could be improved upon,” says Nathan Partain, president and chief investment officer of Duff & Phelps Investment Management and non-executive chair of Otter Tail.

“A good chair candidate should have been a leader

of an organization or a function of significance, bearing in mind that a board can be tougher to lead than a company or function,” Partain says.

Here is where a board’s formal assessment practices and processes come into play, as a means of determining each director’s capabilities and individual preparedness for the chair role. These capabilities could include such elements as “seasoned judgment,” “facilitation skills,” or “respect for others.”

Whether the board conducts its own evaluation or employs a third-party to do so, the evaluation process (especially if a peer feedback process is employed) will provide a much clearer idea about which directors would be ready to assume the chair role. Those evaluations also provide insights about whom specifically other board members would be willing to follow.

Do not just give the chair role to your longest-tenured director, or rely on a rotation system.

Step Three: Identify viable chair candidates.

Contrary to common belief and practice, do not just give the chair role to your longest-tenured director, or rely on a rotation system to periodically fill it. No matter their board knowledge and experience, such directors may not be the right fit for the unique demands of the chair role at that point in time.

“I would think about personality and presence,”

says Susan Marvin, chair of Marvin Companies. “Is this a person who won’t overstep their position and place themselves in a position of having more power than all others? Someone who can chair a meeting ensuring that all points of view are heard, but not dominate decision-making? Style is important.”

Director peer evaluations and overall board evaluation processes can help identify a group of potential chair candidates among board members. However, they may not reveal the optimal choice. At Flexsteel, Lynn Davis, who was soon to be retiring as chair, hit upon an elegantly simple solution to arrive at board consensus for its next chair: He asked.

“We started by compiling a list of qualifications and expectations for the board chair,” Davis says. “I spoke with all of the directors and asked each one for their top three candidates for chair, then tallied the vote and a clear next chair emerged. It worked well. Everyone appreciated being asked if they wanted the job, as they could rank themselves number one if they wanted.”

Keeping track of your candidates for chair roles can be difficult if it is not systematized, particularly given members’ varying committee assignments and lengths of tenure. We suggest you maintain a succession planning grid for all director committee assignment and chair roles, and consider how to give multiple members a chance to broaden their experience base.

Boards want to see a strong, open relationship between the chair/lead director and the CEO.

□ **Step Four: Engage your CEO.** With more boards separating the roles of chair and CEO, it is highly likely that your CEO eventually will not also serve as chair. Also, the role of lead director is becoming increasingly vital to the board’s functioning.

Thus, establishing your chair or lead director’s role is critical so that both the CEO and the chair or lead director know and respect the boundaries of their roles. Boards want to see a strong, open relationship between the chair and the CEO, which means you need to regularly consult and engage

your CEO throughout your chair identification and selection process.

One of the unique roles the chair or lead director plays is that of translator and communication bridge between the CEO and the board, and between the board and management. It takes time to build that effective relationship and communication bridge, but an effective one pays off for the company overall.

“I was very lucky to quickly build a partnership with Lynn [our prior board chair],” says Karel Czanderna, director, president and CEO of Flexsteel. “We had amazing alignment on what needed to get done and in what order, priority and depth to take the company and our board to the next level.”

“When you think about board performance and CEO and management team performance, the CEO and the chair’s relationship is a microcosm of how the board and the management work together,” says Jean-Michel Valette, chairman at Select Comfort and lead director at Boston Beer Company. “You have to deeply consider that quality of relationship in the selection process. A good relationship means a productive relationship. Is there trust and evenness on the one hand, and enough frequency on the other hand that all that needs to get shared gets shared?”

Bear in mind that an engaged and productive relationship between your chair and CEO is not simply for the immediate real-time benefit, but also for the long-term, precedent-setting good of the organization.

“The board chair helps the CEO to be an effective CEO vis-à-vis the board, and vice versa,” says Ann Sarnoff, president of BBC Worldwide Americas and a member of the PayPal board. “It is absolutely pivotal to have a very strong relationship between the CEO and board chair. If you do it well, another person can step into that dynamic, and it becomes an enduring dynamic that is not dependent on the two individuals. You are basically creating an asset for the company.”

However, as the scope and transparency of corporate governance and enterprise risk management continues to evolve and expand, be cautious about fostering *too close* of a relationship between your CEO and board chair. “The relationship between the CEO and the board chair should be critiqued on the

basis of possible cronyism,” King says. “Any board chair candidate with this kind of relationship with the CEO would not be a good candidate for board chair succession. This disadvantage should be dealt with during the board and individual evaluation processes, before the board member is considered for the board chair position.”

□ **Step Five: Plan your chair transition.** Once you have successfully completed each of the preceding steps (defining the chair role, creating a succession process, identifying potential candidates and engaging your CEO), you are likely prepared for someone new to become board chair, now or years from now. However, do not underestimate the work that remains to be done before and after such a transition occurs.

Provide opportunities for the director aspiring to a board leadership role.

For example, as part of your candidate identification process, are you providing promising directors with the type of leadership experiences that allow them to learn more about the organization and how it functions, as well as demonstrate leadership abilities? This could be an opportunity for the candidate to lead the audit or compensation committee, for example, or possibly chair an ad hoc committee. Whatever the designation, you want to provide opportunities for the director aspiring to a board leadership role.

It also means selecting directors in the first place who have keen self-awareness and a willingness to hear input from others, and who understand the difference between governance and management. While selecting directors for their specific expertise is important, of equal importance is how they will relate to and interact with other members of the

board. If leadership criteria are not part of board member selection, the board will not have the long-term leadership pool it needs.

Timing is another important element. The relationship between the CEO and the board chair is an “ecosystem” in itself. Changing the board chair and CEO at the same time can be especially disruptive for both management and the board. When a board discusses CEO succession that is also an important time to discuss a chair transition. A new CEO benefits greatly from an experienced board chair, and an experienced CEO can help a new board chair make a great transition.

Once you name a new board chair, and this person begins in the role, do not mistakenly assume that he or she is necessarily ready to hit the ground running. Even if this person has chaired another board, know that there can still be a learning curve for your board’s chair role, both in terms of working with other board members, as well as with the CEO and management.

Some boards address the chair “learning curve” by having the outgoing board chair mentor the new chair. Or, the new board chair could reach out to chairs of other boards to compare notes on board chair challenges and best practices.

For board chairs interested in further professional development, a great way to accomplish this is through a board peer evaluation, specifically focusing on the role of chair. Or, the chair could directly ask each director individually for suggestions on improving performance.

Because so little has been previously researched or written about board chair succession practices, there is not necessarily a single “best” practice approach. The first best practice is just to start talking about it. Having a great board chair makes a difference. Your shareholders are counting on it. ■