

DIRECTOR SELECTION

Rethink the board's succession

While CEO succession has captured headlines recently, directors shouldn't neglect their own boards' succession planning. Despite recent trends toward extending director retirement ages (which may play a role in explaining the relatively low director turnover rate), nominating committees will eventually have to focus their efforts on recruiting candidates for their boards. Plus, the new proxy disclosures outlining directors' skills and experiences are highlighting boards' combined skills, and may allow shareholders to more easily identify skill gaps.

In PwC's 2010 Annual Corporate Directors Survey, of the 1,110 U.S. directors who responded, 45% say there is a shortage of qualified candidates. The most difficult skills to find? Information technology (cited by half those surveyed) and international experience (48%). It is even more difficult, directors say, to find diverse board members — either from ethnic minorities (64% citing the difficulty) or who are women (53%).

Part of the issue may arise from the criteria boards set for new directors. While almost

every board would like its next new director to be a sitting or recently retired CEO, such candidates are rare.

Making the search even more complicated, directors are reluctant to add members who have not had prior board experience. Another part of the challenge lies in how boards find candidates. Asked how they would recruit future members, 86% of directors say they rely on their own contacts. Placing such limits on the search — holding out for a chief executive, for a sitting director, or for someone they already know — makes it particularly difficult to add skills the board does not already have or to enhance board diversity.

Thus, nominating committees seeking new directors should expand their search, and think differently about the way they approach renewing the board. Here is a possible four-step process:

- Understand the impact that any term or age limits will have on your current board, and project out whether (and when) you might expect years of significant director turnover. Also, understand if your shareholders are messaging they would like fresh

faces on the board.

- Identify any gaps between the skills, experience, and attributes you'd like on your board and what you have presently. Those gaps may exist now, or they could arise because of pending director departures or, more importantly, as you look forward to changes coming to the company's strategy or business.

- Be creative and open-minded in searching for directors with needed skills. Don't let a lack of prior board experience or the level of their executive position be a major limiting factor in identifying candidates.

- Support your new directors — especially those who don't have prior board experience. Individuals who are new to the boardroom could benefit from mentoring by experienced fellow directors.

The current low turnover rate in board memberships, by its very nature, is temporary. If the search for new members seems difficult today, it is likely to be even more so in the future. So to get ahead of the curve — given that the search and due diligence process for a new director can take from six months to a year — be proactive in starting to address your board's future needs, today.

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