NACD Chicago Small Group Dinners
Board Succession

Summary of Dinner Discussions

Five separate dinners were held in the Chicagoland area for NACD Chicago corporate director members on April 12 in our inaugural Private Dinner Event. Attendees had the opportunity to meet and network with a small group of their peers, and lively discussions over dinners – primarily on the issue of Board Succession – provided an excellent chance to have deeper discussions on a hot topic area for directors. The following six themes emerged:

1. DEALING WITH CHANGE: Change is not only inevitable but also healthy. Directors should be internal agents for change rather than waiting for external activists to force modifications in the way a company conducts business or focuses its strategy. The manner in which board members approach change and drive innovation has an important influence on senior management and overall corporate culture. Watch out for the counterproductive tendency to discount ideas from newer members.

2. BOARD MEMBER RELATIONSHIPS: One group discussed that directors should develop relationships outside of the boardroom in order to build trust and support for new ideas and strategies. These interactions are particularly important among directors with diverse skillsets and backgrounds. When significant opportunities or issues arise, it is important for board members to draw on coalitions they have fostered outside the boardroom to promote their ideas and further their plans. Directors should be careful, however, that prior alliances do not inhibit productive dialogue and the ability to sort through issues on a real-time basis in an objective fashion during board meetings.

3. BOARD COMPOSITION/GOVERNANCE:

-- Boards should use a matrix of backgrounds, skills and qualities to regularly refresh their consideration of board needs; these multidimensional matrices should be grounded in the company's long-term strategy- where you want to be, not where the board is today. Even highly effective boards should consider adding new directors from time to time who can productively challenge the status quo. If this process is done correctly, it is possible that some existing members may opt off the board, recognizing that their skills may not be sufficiently current to meet the company's needs. There was general agreement that one of the biggest challenges to Board succession planning is to prompt the departure/retirement of the member who is no longer adding as much value as the potential new director. Lastly, it is important to remember that because the selection process may take up to two years, the pipeline should be developed continuously, and all board members, not just the nominating committee, should recommend potential directors.

-- Informal social settings work well when initiating contact with potential board members. Possible board members should be asked to discuss their own long-term goals and plans for board service; find out whether they want to serve on specific committees and evaluate their interest in committee leadership roles as appropriate. Nominating committees may want to set the stage upfront with prospective candidates regarding average service tenure to confirm the board's general expectations rather than have term or age limits.

Directors who rely on board appointments for income or prestige may not be the best candidates since they may not speak up with dissenting views for fear of not being asked to continue their board service.

--To foster diversity, boards should consider potential candidates without prior board experience but with the requisite skills to contribute, particularly relating to technology and consumer behavior; one dinner group discussed that a "blind audition" approach would open boards to overcome any unconscious bias with a broader pool of qualified candidates. Remember every director started with his or her first board. Importantly, while all groups felt diversity was critical to creating an effective board, one group did note the importance of having directors who share similar values. Attendees discussed ways that NACD could do more to help its members become "board ready," including mock board meetings, white papers gathering advice from seasoned directors, and information on international board protocols. Lastly, boards need to be careful about simply taking on a new member because he or she is the CEO's desired candidate; conversely, bringing in a new director who the CEO does not respect is a "lost opportunity."

-- Board evaluations are an important tool in ensuring that board membership stays on point and relevant; 360 appraisals of individual board members and of the board in its entirety should be done every other year, and, to maximize effectiveness, evaluations should be conducted confidentially. One group discussed that while a forced ranking of board members is not generally considered best practice, some boards will identify the top- and bottom-half or the top-three and everyone else in terms of board performance.

-- Some NACD members felt that term limits can help boards stay relevant, but they should never substitute for difficult conversations that must take place with directors who are no longer "fit to serve" on a given board. Other directors believe that if boards perform the succession planning process effectively, there is no need for term or age limits. Ultimately, the Chair, lead director or nominating and/or governance committee chair(s) is responsible for having those difficult discussions with any board member who will not be asked to stand for re-election. In situations where term or age limits do exist, boards should consider waivers for a specific time extension if a particular director's skill sets are deemed critical and difficult to replace.

-- In discussions regarding how long board members should serve, the general consensus was sometime between five and 15 years; one group called this timeframe an "arc of relevance" for peak performance. It was generally recognized that there can be a steep learning curve in some industries, and it can take several years for a new board member to feel fully effective. Mentorship from a seasoned director can be very helpful during the onboarding process.

-- Planning for important board roles, such as lead director and audit chair, should be regular succession discussions. The nominating committee may want to consider rotating leadership roles among current board members.

4. BOARD-MANAGEMENT INTERACTION: Directors appreciate having exposure and access to management, even a few levels down within an organization. This contact gives board members an improved understanding and perspective regarding the company's talent and management succession readiness. While company exposure is critical to director onboarding, all board members should be required to visit company locations on a regular basis, and these visits should include meetings and presentations with local management. The board chair often serves as an effective coach for the CEO and other board members (described as "adult supervision" by one dinner group.) One group also talked about what the CEO is looking for from his or her board: CEOs want directors who can "help," people who have answers, and board members who are sufficiently engaged to raise topics management may not have considered and ask questions that are difficult to answer.

5. BOARD-SHAREHOLDER INTERACTION: In general, the primary point of contact with key shareholders and proxy advisors on most issues should be the CEO and CFO, not board members; in fact, one group noted that board members should not be so actively involved with the day-to-day operations of the company that they could easily answer detailed shareholder questions. It is critical, however, for board

members to be aware of issues being raised by key shareholders in order to ensure that the board places an appropriate focus on these areas. Discussions between shareholders and board leadership generally focus on areas of governance such as board leadership, CEO succession, CEO compensation, and board diversity.

6. OVER-COMMITMENT: Overboarding is emerging as another focus area for investors and proxy advisors. Serving on more than four boards makes it challenging to calendar and stay engaged, particularly if any of the companies are in crisis. One group noted that a sitting CEO should probably not serve on more than one outside board, and retired CEOs should sit on no more than three boards. This same group noted that 60% of directors are former CEOs or CFOs, and attendees were concerned that that similarity of background could result in too much "group think" and an environment that was too protective of the CEO.

One director summarized the evening this way: "The small group setting facilitated networking at a very deep level, allowing connection with everyone in the room. The discussion added additional interest, learning, and the ability to appreciate how other board members think [about this important topic]. I left the room feeling a greater sense of belonging to the NACD organization, which will make me more comfortable in future meetings and excited to attend."

Many thanks to our evening's dinner hosts and their assigned sponsor representatives who were our scribes:

Director Hosts:	Sponsor Representatives
Brenda Gaines	Sara Spierling, Heidrick & Struggles
Michele Hooper	Walter Carlson, Sidley Austin
Joe Novak	Jeff Schiedemeyer, Duff and Phelps
Alice Peterson	Daniel Creamean, KPMG
Joan Steel	Ed Steinhoff, Pearl Meyers