

ASSURING LEADERSHIP FOR THE FUTURE: *THE BOARD'S ROLE IN SUCCESSION PLANNING*

Presented to Corporate Governance Workshop

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Definition and Purpose

Definition

- Having the right people in the right jobs at the right time
- Developing and selecting leaders for the future of the organization
- Overseeing a smooth transition from outgoing to incoming leaders

Purpose

- Building a “pipeline” of future leaders for the organization
- Assuring the best “fit” for the leaders of an organization
- Minimizing disruption in the organization from transitions
- Ultimately, assuring the continuing success of the organization

Distinctions

- **Executive Succession:** Assuring the ongoing performance of an organization through a process of developing a talent pool, effectively selecting and orienting the highest quality successor and preparing him or her and the organization for success.
- **Replacement Hiring:** Waiting until a position becomes available and beginning a search process at that time.
- **Emergency Leadership Plan:** A plan that identifies contingency selections in the case of an unexpected, temporary or permanent loss of an executive.
- **Interim Executive Selection:** Appointing an Executive to “bridge” the departure of one executive and the appointment of the successor. This individual may or may not be considered as a candidate for the permanent position.

Developing Internal Talent

- Identify key executive and management positions
- Identify key leadership and management competencies for each
- Identify potential candidates for each position, exercising caution in implying a commitment or selecting an “heir apparent”
- Design developmental opportunities:
 - Executive Education
 - Rotational Assignments
 - Cross-Boundary Experiences
 - Special Assignments
- Develop Individual Development Plan for each potential candidate
- Track progress
- Continually invite “high potentials” to prepare for increasingly responsible positions

Preparing for a Leadership Succession

1. Clarify the position requirements, roles, expectations and competencies.
2. Design and implement performance evaluation process based on competencies.
3. Determine where the organization wants to go: Vision, Mission, Strategy, Change.
4. Conduct an Organization Assessment: Operations, Financials, Talent and Culture.
5. Create an Executive Profile based on the above.
6. Develop selection criteria based on the above.
7. Prepare a Communications Plan.
8. Establish accountability for Board, Transition Committee and Staff in the process.

Benefits of a Comprehensive Approach

- Communicates clear sense of direction to both internal and external constituencies
- Reduces anxiety among employees
- Ensures a good “fit” and a smooth transition
- Selection aligns with future markets, strategies and challenges
- If process is open to internal candidates, it helps employees see opportunities for career advancement, identifies potential internal talent, and identifies needs for internal leadership development
- Helps maintain your company’s reputation, image and credibility

Use of Executive Search Consultant

- Contributes to process viewed as thorough and objective
- Has deeper knowledge and experience from other searches
- Will guide the development of the Executive Profile
- Has the time to thoroughly recruit and evaluate candidates
- Widens the candidate pool beyond job announcements, word of mouth, mailings
- Save time of the Board in weeding out less qualified candidates
- May conduct initial interviews
- Will assist in development of interview process, questions, format, etc.
- May conduct background and reference checking
- May assist in negotiating terms of employment

Components of an Executive Profile

1. Organization Background: History, Mission, Milestones, Previous Leader(s)
2. Critical Leadership Issues: Current and Future, including Strategic Overview
3. Key Responsibilities and Accountability
4. Desired Skills, Characteristics and Competencies
5. Ideal Experience
6. Compensation
7. Guidance for Candidates

Elements of a Communications Plan

- Announcement of Executive's departure, years of service and highlights of his or her accomplishments
- Announcements of Search Committee, process and projected schedule
- Strategies for widely circulating the Executive Profile to encourage applicants and referrals
- Updates to keep people informed of the process until final selection
- Formal announcement of appointment of new executive, internal and external stakeholders, partners and media
- Share relevant information about the transition, including special events, key initiatives, "messages from the new executive" for 3-12 months

Blueprint for the Transition

- Define role and timeframes of outgoing Executive throughout the process
- Define role of Committee and Board throughout the process
- Provide a written Orientation Plan
- Develop Briefing Book for new Executive
- Develop list of key internal and external individuals
- Encourage new Executive to conduct informational interviews
- Agree on written goals and expectations for new Executive for 6 month period
- Consider Executive Education and/or Coaching

Pitfalls in Executive Succession

- Deferring to the current Executive or Search Consultant to lead the process
- Requirements that are boilerplate or needlessly narrow the candidate pool
- Failing to seek adequate information from a wide range of references
- Hiring a replacement, not a successor
- Providing more information to some candidates than others
- Failing to disclose vital information regarding organization's challenges
- Keeping Elvis in the building
- Lack of effective communications throughout the process

Board Succession Planning

- **Definition:** Assuring a high performing board through a process of identifying, developing, recruiting and orienting effective board members.
- **Accountability:** Nominating/Governance/Board Development Committee of the Board with guidance and input from Executive staff
- **Advantages:**
 - 1) Assures pool of competent and willing potential board members at all times
 - 2) Reflects favorably on organization and enhances likelihood of agreement to serve
 - 3) Spells out expectations of board members *before* election
 - 4) Insures diversity of background, skills, experience and perspectives among board

Key Elements of Board Succession Planning

- Develop Job Description and Expectations of Board Members
- Identify appointments to committees that will prepare possible board candidates
- Develop Profile of Current board membership: strengths, representation of industries, backgrounds, specific skills (i.e., accounting, public relations, law, etc.)
- Identify gaps and set priorities for board recruitment
- Keep running list of possible candidates and develop/cultivate/engage those individuals
- Be truthful about expectations in recruitment
- Require an interview with the Committee or Board Chair as part of the process
- Upon election, conduct thorough orientation and emphasize ongoing expectations to stay current in industry, market and economic dynamics affecting the organization and its strategies.

Additional Succession Planning Resources

- *Chief Executive Succession Planning*, Nancy R. Axelrod
- *Succession Planning Basics*, Christee Gabour Atwood
- *Succession Planning and Management*, David Berke
- *The Practitioner's Guide to Governance as Leadership*, Cathy Trower

The Nominating and Compensation Committee – The Cornerstone of Corporate Governance

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Today's Topics

- Purpose
- Design
- Board Member's Perspective
- "Regulator's" Perspective

Purpose of the Nominating and Compensation Committee

- Assist the Board with Director Nominations, Orientation and Professional Development
- Recommend the Selection and Compensation of the Principal Officers of the Company
- Evaluate the Performance of the Principal Officers of the Company

Design of the Nominating and Compensation Committee

- Written Charter Identifying Composition, Responsibilities and Authority of the Committee(s) for both Nominating and Compensation – Say on Pay
- Potential Board Members Identified and Given Orientation
- Current Board Members Educated and Evaluated
- Executive Compensation Must Align with the Company's ERM, Business and Strategic Plan

Design of the Nominating and Compensation Committee

- Evaluate Performance of Officers
- Does Executive Compensation Include both Performance and Incentive Compensation
- Use of Market-based Benchmarks, Risk Adjustments, Clawbacks and Board Discretion
- Eligibility and Funding

Board Member’s Perspective on the Nominating and Compensation Committee

- The Board Needs to Have the Breadth and Depth of Experience Needed Including Succession
- Goals and Objectives Should Include Individual and Organizational Performance
- Establishment of and Payment for Incentive Compensation Goals and Objectives Must be Timely and Measurable
- Are Adjustments “Normal Course of Business” or “Extraordinary”

Regulator's Perspective on the Nominating and Compensation Committee

- What Causes Troubled Companies and Insolvencies
- Risk-focused Financial Surveillance, Form F, ORSA and Corporate Governance Disclosure
- Effective Board Oversight (Independence) and Management Decision Making

Is the Nominating and Compensation Committee the Cornerstone of Corporate Governance

- ERM
- Corporate Strategic Plan
- Establish Goals and Objectives and Associated Compensation
- Select Board Members and Officers

Questions

The Board's Role in Risk Management & ERM

**Insurance Company Corporate
Governance Workshop**

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**G. Lawrence Buhl, CPA
Audit and Risk Committee Chair**

Responsibilities of the Board of Directors

- CEO
- Fiduciary
- Counsel
- Mission

Approval and Oversight