

# SHAPING THE BOARDS OF THE FUTURE

*Succession planning, board evaluations and term limits*

**“WE HAVE  
JUST COMPLETED  
A SEARCH  
AND HAVE NO  
VACANCIES FOR  
A WHILE”<sup>1</sup>**

One of the reasons given by Chairs and NEDs for not appointing women to their boards is “We have just completed a search and have no vacancies for a while”<sup>1</sup>. This approach assumes that each director has an unassailably fixed term, regardless of the needs of the company into the future or the value being added specifically by that director. Forming the best board to optimise a company’s future success may require changes in its composition from time to time to meet future strategic needs, continuously upgrade director performance and to enhance diversity, including gender diversity.

This report provides insights into the practices and conversations within ASX 200 boards when engaged in succession planning, board evaluation and renewal processes. Ten ASX 200 chairs and

non-executive directors explained, during face-to-face or telephone interviews, the practices of their boards in relation to succession, evaluation and renewal; emphasising the iterative and evolving nature of these practices in recent years. The ten chairs and NEDs were chosen due to their significant experience on boards and observation of evolving board processes and practices.

Advice was also provided by an experienced board evaluation consultant, who specialises in evaluating ASX 200 Boards. The Australian Institute of Company Directors’ (AICD’s) ASX 200 director members were also invited to participate in an online survey, supplementing the qualitative interviews. This enabled quantitative data to be presented alongside qualitative insights.

Of the survey respondents, the female:male gender split is 60:40 percent and the majority of respondents serve on the boards of companies in the financial sector (23.4 per cent), followed by consumer discretionary (16.8 per cent) and materials (13.9 per cent).

Whilst the initial impetus of this report was the apparent application in practice of a de facto fixed 10 year term for directors as a blocker to enhancing gender diversity of boards, the 30% Club and the AICD were also interested to understand the implications of such an approach to director terms for effective board succession planning, the performance evaluation of current and prospective directors and the renewal of board composition in order to match the future needs of a company's strategy.

## TERM LIMITS: A DE FACTO FIXED TERM?

The ASX Corporate Governance Council, in its Corporate Governance Principles, states, "A majority of the board of a listed entity should be independent directors". It recommends that boards should regularly assess whether a director who has served on a board for more than 10 years means that he or she has become too close to management to be considered independent. However, it does appear that a nine to 10 year term has become a de facto for directors, with their earlier departure more often being at their own volition rather than because they are deemed to be under-performing or not meeting the future needs of the company.

Over 80 per cent of respondents acknowledged that most directors serve out a full nine to 10 years, of which 48 per cent noted that some directors leave prematurely or retire early. These responses reveal that the ten year check point has become a de facto fixed term, which mitigates against the removal of underperforming directors or board renewal to inject greater diversity (including gender diversity) and to meet future strategic needs of the company. Indeed 11 per cent of respondents even supported the regulation of term limits as an aid to effecting director succession.

## SUCCESSION PLANNING: THE IMPETUS, EVOLUTION AND OUTCOMES

Board succession planning has evolved in recent years and is increasingly perceived as a process boards need to engage in regularly. Almost universally, such discussions involve all members of the board at some stage with 33.6 per cent of respondents noting that the full board is the nominations committee and a further 21 per cent involving the full board in such discussions.

The majority of directors interviewed and surveyed discuss succession planning, board composition and potential future directors with their fellow directors every six to 12 months, but just over 10 per cent of respondents said succession was only discussed when vacancies arise.

Indeed, boards rarely initiate a change in directors out of cycle: rather they generally enable colleagues to serve 9-10 year terms or, less commonly, their designated three-year terms between their required re-election by shareholders. Further, only 18.1 per cent cited changing business needs and 10.2 per cent the need for enhanced board diversity as being the impetus for such discussions, despite nearly 74 per cent of respondents noting that the charter of their nominations committee references diversity of the board's members in terms of skills, experience and gender. The overwhelming majority of the 30.7 per cent who responded that there was an "other" impetus for such discussion specified that such impetus was part of the annual board agenda, often in the context of the board's annual review. Only one survey respondent specified that their board was "now taking a longer term view which is anchored by our strategy."

Most boards are now using a skills matrix to assist with succession, not only due to the disclosure recommendations of the ASX Corporate Governance Guidelines but also as a mechanism to map where the board as whole currently sits against the matrix and what skills are missing. However, less than half of the survey respondents described their skills matrix or approach to succession planning as fully effective in addressing skills gaps. Indeed, a skills matrix is only useful when treated as a dynamic document and regularly updated to reflect the requirements of the company's overall business strategy. If not updated in this way, it will fail to reflect adequately the life cycle or stage of the company and its strategic needs for particular skills, expertise, experience or diversity amongst its directors. Similarly, directors need to regularly update their collective understanding of their colleagues' multi-faceted experience and expertise. Over 75 per cent of survey respondents develop or assess their skills matrix at least once a year and believe they are very or mostly effective at scoping requirements, usually feeding it into conversations around succession planning. 34.9 per cent of respondents said this was prompted by a new business strategy, with the majority (72.2 per cent) prompted by a lack of skills currently on the board as identified in the skills matrix.

Several chairs interviewed emphasised the importance of discussing succession planning in the context of the skills set that each current director owns and what is required from potential directors to ensure the long-term sustainability and success of their organisations within the context of the company's strategic requirements.

*Every discussion you have around succession planning improves the quality of the conversation and the ability to find the right directors for the board. We use the skills matrix to talk about the general skills and attributes we are looking for in new directors and then we analyse what the company requires strategically. We ask ourselves whether we as a board have the experience and attributes to be able to add value to the company in achieving those objectives.*

**Ilana Atlas Chair, Coca-Cola Amatil**

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Chairs interviewed also noted the importance of involving all directors in the consideration of potential board candidates. With 84 per cent of survey respondents rating their boards' processes for appointing directors as very or mostly effective, it would appear that the overwhelming majority of boards conduct a process that is transparent, with no surprises for board members in terms of the candidates short-listed, those ruled out and the appointed director. Additionally, all interviewees said that a potential candidate would be ruled out if any of the incumbent directors had an issue with them, albeit after interrogation of the individual's concerns. This is due to the desire for collegiate boards that work well together without disruptive tension or conflict which illustrates the importance of ensuring all directors have a say before the face-to-face interviews commence. However this input should be carefully examined so that the selection process is not held hostage to bias, hearsay or the pursuit of conformity over diversity.

Proper scoping of the search brief is pivotal to enabling the board to achieve its ambition to match directors with the company’s strategy needs. However only 46 per cent of respondents rated the board as being very effective at scoping the brief, although a further 41.4 per cent deem their board to be mostly effective. Of particular concern in the context of identifying female director candidates, is the potential of a highly specific brief (in terms of experience – length, type and sector – versus skills and expertise) to exclude suitable and diverse candidates from the list. Several chairs interviewed do recognise that there will always be trade-offs when sourcing new directors and are careful to focus on future strategic needs rather than the replacement of a certain director profile. If specific experience or skill sets are deemed essential for reasons other than strategic needs, then it will be virtually impossible to populate a short-list, let alone a long-list, of diverse candidates. When chairs place too high a value on “collegiality and teamwork”, it can be used as code for “being like us” and limits the opportunity of injecting innovative or diverse thinking and of increasing gender diversity of a board. Pleasingly, when asked what factors are most important when replacing outgoing directors, 87.4 per cent of respondents identified “meeting the future needs/strategy of the business, followed by culture fit and addressing a skills/ experience gap, with replacement of the skills leaving the board scoring the lowest at 29.8 per cent.

*Any candidate is going to carry some sort of compromise, so you may start out looking for someone with digital disruption experience and from a particular geography etc. and it’s not always easy to get someone that meets all of those criteria. So you need to be flexible in terms of some of the skills or experiences you have on your list. It is also always important that you find someone that fits in well with the board, i.e. they possess the qualities of collegiality and teamwork. Both elements need to be considered, not just an individual’s skills.*

**Graeme Liebelt** Chair, Amcor

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*Replacing like with like skills is common if the board is right in the first place, but you do need to keep reviewing the skills and the composition to make sure the board meets the requirements of a changing world.*

**Peter Hay** Chair, Newcrest Mining and Vicinity Centres

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*Different businesses are going through different levels of disruption. In areas of disruption, we have felt that the world is moving so quickly that we need those skills in the executive ranks or from consultants as opposed to the board. The board then applies the governance, strategy and intelligent questioning to the set of executives or consultants that have that expertise.*

**Arlene Tansey** NED, Adelaide Brighton, Aristocrat Leisure & Primary Health Care

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“WHEN CHAIRS PLACE TOO HIGH A VALUE ON **‘COLLEGIALITY AND TEAMWORK’**, IT CAN BE USED AS CODE FOR **‘BEING LIKE US’** AND LIMITS THE OPPORTUNITY OF INJECTING INNOVATIVE OR DIVERSE THINKING AND OF **INCREASING GENDER DIVERSITY OF A BOARD.**”

A current trend is to seek directors with technology and digital expertise. Almost 30 per cent of respondents identified technology and digital as a current compositional gap on their board. However a similar number of respondents did not identify a specific skill gap or requirement as against having international, Asian or another specific geographical experience. Having cross-jurisdiction operational experience is still strongly emphasised. Whilst respondents did refer to the need for gender and cultural diversity, they are almost evenly split on whether their boards had sought out all-female board candidate nominations from among their members or lists from search firms, with 48 per cent answering yes and 45 per cent answering no. This is despite 77 per cent of respondents agreeing that this has been either very (43.1 per cent) or mostly (33.9 per cent) effective in securing female candidates. So the challenge in achieving gender equity on our boards is not one of supply but continues to be one of demand, with insufficient numbers of boards perceiving gender diversity as a strategic imperative.

*Gender would be seen less as a strategic need, despite the research showing that having diverse boards leads to better decision making. **ASX Board Evaluator***

*I think diversity of views in the boardroom, not just gender diversity but all elements of diversity, is undervalued. If you can create the right dynamic for discussion, a collegiate atmosphere and promote fearlessness in terms of offering opinions, then diverse experiences will bring diverse views and I think better decisions and outcomes. **Graeme Liebelt** Chair, Amcor*

Search consultants continue to play an important role on behalf of boards in seeking out new directors, with almost half (48.8 per cent) of respondents saying they engage consultants all the time when seeking new directors and a further 43 per cent use them occasionally for this purpose.

*We will usually use a search consultant to ensure we have covered the field. We may have identified candidates, but at the same time you need to make sure you are canvassing the field to ensure that someone hasn't gone under the radar.*

**David Crawford** Chair, Lendlease and South32

However, only 35 per cent of survey respondents said that search consultants play any role in succession planning such that they use the same consultants over time, and only 6.5 per cent of these ask the search consultants to identify and keep track of potential candidates and to brief the board regularly on them. The transactional nature of the majority of director searches mitigates against search consultants having a deep understanding of the board itself and the strategic needs of the company to enable them to assist with succession planning on an ongoing basis.

The relationship with the search consultant is also highly dependent on the life cycle of the board and its confidence in the individual expertise of the consultant. Enabling a search consultant to have insight into the strategy of the company on an ongoing basis requires a significant level of trust between parties and comfort with an 'outsider' having access to sensitive company information. Indeed, only 28.5 per cent of respondents develop a relationship with a single search firm such that they understand the business strategy.

*If you have quite an extensive program of renewal, then it is actually more constructive to develop a relationship with a search firm. You then work with them over a period of 2-3 years to get that significant renewal in the board done. Once you have that relationship, they know and understand you, so it is easier to talk to them about what you are looking for and the dynamics of the board.*

**ASX 200 Chair**

*You need to have a high degree of confidence in the search consultant to want to bring them inside the tent to that degree and commit to them partnering with you on several cycles of appointments.*

**Dr Ziggy Switkowski** Chair, Suncorp

Several of those interviewed acknowledged the increasing spotlight on director appointments from investors, leading to greater use of search consultants merely for the appearance of an objective process when, in reality, all or most of the candidates on the long and short lists have often been put there by the directors themselves. The role of the consultant is then at best reduced to providing a few additional candidate recommendations or, at worst, reference checking the favoured candidates.

Given the ongoing lack of diversity on Australia’s boards, it appears that directors may be over-estimating how extensive their own networks are or not giving gender diversity sufficient emphasis in their briefs to search consultants.

Proper succession planning is considered a long game by the interviewed chairs. They may be having conversations with particular candidates, for several years before a board vacancy arises. However, only 6.5 per cent of survey respondents said search consultants play a large role in succession planning to identify and keep track of potential candidates perhaps reflecting concerns that this ‘courting’ process can be delicate as there is danger in approaching too many candidates, potentially creating unrealistic expectations in them of future appointments.

*A board that is doing a good job at succession planning will have a pipeline of people they know that could be appointed to the board. There is no expectation that those people will be appointed to the board, but there are individuals that the chair is having discussions with over a period of time.*

**ASX Board Evaluator**

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Additionally some candidates are seen as star recruits, in that several boards are chasing them. This appears to be the case in respect of a targeted group of female directors and leads to those companies that are unsuccessful in landing such candidates to complain of a shortage of female candidates. This is particularly relevant in the context of the high number of respondents who say their board sometimes or always (67.2 per cent) gravitates to candidates who are known to board members to satisfy concerns around cultural fit (18.9 per cent) and ability to work together collaboratively (21.1 per cent). It is easier to imagine working with someone who is known by at least some on the board and who has an established reputation in the market but, given the current small percentage of directors who are female, this leads to the catch 22 of less females being known to directors and therefore reduces the likelihood of females being selected.

*When you are dealing with a known candidate it does feel more comfortable, you can be more confident with those areas of personality and collegiality – you know something about their qualities and the contribution they could make. Often the reality is that the most known candidate will get the nod, but you just need to be careful that you go back to your brief and check you are achieving what you set out to achieve and meeting the brief you set yourself. **Graeme Liebelt** Chair, Amcor*

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However, some chairs specifically request lists of individuals they don’t know as they are seeking to include a broad range of candidates on their long and short-lists and want to discover new and diverse talent. This practice should be encouraged, in particular when it’s conducted in the context of an analysis of the company’s strategic needs and future board composition, a specific and well thought brief of needed skills, expertise, attributes and experiences, a thorough due diligence process on the candidate and a willingness by board members to support the chosen candidate to succeed in the context of the particular board.

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*If you strive for diversity of thought and approach then you have to expect you are going to get candidates that are different. It is often a big call for a board to endorse a particular candidate that is way out there and has a remarkably different approach to issues. You need to ensure the board understands and welcomes this approach, rather than be irritated by it after you make the appointment. So particularly as the chair, you need to carefully consider each individual’s style and how the directors will work together as a team and complement each other. **Dr Ziggy Switkowski** Chair, Suncorp*

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*I’ve been on boards where there are people that are highly diverse and ask questions differently. That can be really helpful. Has it at times caused conflict and been unhelpful? Yes. So fit is definitely important, but ultimately the skills and what value people can add is vital.*

**ASX 200 Non-executive director**

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*You must ensure you have a really effective team. Everyone must play their part, be clear about their contribution and work hard. That is always the challenge in director succession. **Ilana Atlas** Chair, Coca-Cola Amatil*

## SUCCESSION PLANNING: GOOD PRACTICE

1. Ultimately, succession planning is only effective if the board as a whole has regular, honest conversations regarding current board composition and the diversity of skills, expertise, attributes and experiences required or preferred to meet the future strategic needs of the company.
2. Nominations Committee: Whilst the board chair needs to be actively involved in sourcing and appointing new directors, having another board member chair the nominations committee and leading the succession planning process enhances the chances of new perspectives and diverse candidates being considered (and potentially assists the assessment of the chair in the context of board evaluation). Chairs need to be mindful of the influence they have on succession planning and the impact their personal views and style have on the type of directors appointed to the board.
3. Skills matrices add value to succession conversations but should never be treated as tick the box exercises. The starting point is the company's strategy to assess the full suite of skills, expertise, attributes and experiences required amongst the board members and the assessment of gaps in these areas in the current board and the preparation of a brief of required and desired criteria for a new director.
4. Candidate brief: An overly specific director brief that focuses on the requirement for particular experience and cultural fit at the expense of diversity, skills, expertise and experiences can exclude otherwise suitable candidates from being considered. Effective development of a brief demands careful consideration of which criteria are essential and which are not. Generally this will mean that the brief doesn't describe a clone of the person leaving the board.
5. The chair of the nominations committee should ensure that all board members contribute to the brief preparation and where a search consultant is used, should ensure the consultant is given a full briefing on the company's strategy and preferably, involvement in preparation of candidate brief. They should expect the consultant to include in both long and short-lists a mix of candidates who meet the brief, 50 per cent of whom are female and who are known and unknown to the board.
6. Search consultants: Generally the use of search consultants will enhance the board's ability to discover (and potentially keep in touch with over a period of time) a more diverse, high quality range of candidates to fit the brief rather than reliance on candidates who are known to directors within their network. Planned successions can be derailed by unexpected director retirements and a change in the board chair. This supports the need for boards to have an ongoing suite of potential candidates under consideration who may be at different stages of availability and readiness.
7. Interviews and due diligence: Regardless of the process used to compile long and short-lists and initial interviews, all directors should interview the favoured candidate(s) and meetings arranged with the CEO and their leadership team. Reference checking should be thorough, both formal and informal and pay regard to unconscious biases (e.g. we take more note of a reference from someone we know than from someone we don't know but who has greater depth of knowledge of the candidate).
8. Collegiality: 'Fit' should not be used as an excuse to only appoint directors whom the board knows and is comfortable with, who "won't rock the boat". Behaving appropriately and being able to work collegially are essential to the effective working of the board but they are insufficient bases for the selection of effective directors and should not outweigh the value of meeting strategic needs, filling skill gaps, bringing different thinking and approaches and the value -adding contribution of an individual within the overall context of the board.
9. Induction: An effective induction process and support for every new director, to optimise their successful contribution to the board, should be developed and adhered to.

# BOARD EVALUATIONS: IMPROVING PERFORMANCE AND STRIVING FOR EXCELLENCE

Of the directors surveyed, 44.4 per cent said their board conducts an annual, internally managed, board evaluation via online/written survey, 54.6 per cent engage an external consultant annually, or every second or third year to evaluate the board via written and face-to-face interviews and, in some cases, with the evaluator observing board and committee meetings. However 17.6 per cent of respondents said such evaluations are still handled by the chair discussing performance with each board member. Nearly 80 per cent of respondents said the evaluation process is focused on the collective performance of the board, although the individual performance of directors is often also discussed (43.5 per cent). The extent to which individual performance is the focus when the evaluation is conducted by the chair depends on the level of comfort and trust in open processes of the chair and other board members. Most boards also specifically review the chair's performance. Internal evaluations can be quite quick processes but less informative, whereas external evaluations require more significant resources and a commitment from the board but, when done well, can have a profound impact on board and individual director and chair performance.

*An internal review can be conducted in a variety of ways. As individual directors it is more useful to identify things you value in your colleagues and things you think they could improve. These are more valuable questions than ones such as "Does this director come prepared?" Frankly a lot of things covered in questionnaires are such fundamental hygiene issues that we have moved on and if you haven't, then the chair isn't necessarily doing their job. The chair should move on individuals that don't come prepared or do the work.*

**Nora Scheinkestel** Chair, Macquarie Atlas Roads Group

Overwhelmingly (nearly 88 per cent of survey respondents), boards engage in evaluations in order to improve board performance, reflecting the collective

approach to decision-making and thus impact on the company. 43.5 per cent also seek to ensure individual directors are performing to expectations. Chairs interviewed observe that board evaluations have become increasingly sophisticated and detailed and that chairs are becoming better equipped at managing the process, including the delivery to directors of constructive pointers for their development. They also point out that chairs should manage any deep tensions as this occurs and use the evaluation process to focus on optimising the performance of the board as a whole and of individual directors and the chair.

*Our evaluations focus on the board as a whole, as well as the performance of their fellow directors. Obvious issues should surface naturally - if they show up in the evaluation then that is a worrying sign. It demonstrates there is something wrong with the board culture; it should have surfaced beforehand.*

**Peter Hay** Chair, Newcrest Mining and Vicinity Centres

The culture of the board, in terms of how open, honest and transparent the directors are, will determine how well an evaluation is conducted and the receptiveness of the directors to the results and feedback provided. Chairs that are highly attuned to how their fellow directors think will also have a good sense of their sentiments regarding certain issues and where to invite discussion.

*People are polite in how they express constructive criticism, but they do express it. That comes from the leader. The leader and the board need to have a conversation prior to completing the evaluation and espouse the values of honesty, openness and being forthcoming with opinions.*

**Arlene Tansey** NED, Adelaide Brighton, Aristocrat Leisure & Primary Health Care

The chair also needs to ensure that feedback is not focused on different communication styles, as opposed to the substantive contributions of directors. This is a particular issue for boards that have been built over time in the image of the chair, and thus find it difficult to accommodate or indeed relish difference.

*Some of the feedback needs to be taken by the chair with a grain of salt. If you want to have a diverse board then you shouldn't conform to one style of communication. As long as it is adding value and collegiate, the different styles should be encouraged rather than pushed to conform to some norm.*

#### **ASX 200 Non-executive director**

Not all chairs encourage frank, open conversations or are comfortable with difference or feedback. In focusing on the business at hand, they can dismiss board evaluations as unnecessary distractions in which they are pressured to engage by fellow directors or shareholders. In general, those chairs and directors who were accustomed to engaging in evaluations as executives find it easier to be self-reflective and to hear and respond well to constructive criticism.

*Are chairs frightened of mining for conflict? How you will discover that is by asking what do they close down? I often see the result of that, rather than the actual incidences of it. I certainly get the reportage of that in interviews with people. The risk of that is if the chair closes things down, particularly robust debate, then that is felt very keenly by both the other directors and by management. It then influences how the board operates the next time they meet.* **ASX Board Evaluator**

Several chairs said that the internal evaluations don't always produce many or sometimes any substantial insights. They see engaging an external evaluator as a good discipline to ensure they obtain an in depth, thoughtful and independent view of the performance of the board as a whole, of the chair and of individual directors.

*What external evaluators do is not unearth issues but highlight issues that have to be addressed. The person who conducts that role for us also provides information to the CEO and executives as to what they need to do to improve their performance. The CEO is part of the appraisal and generally finds out whether there are any fundamental issues as far as the executives are concerned. The CEO can then also feed back their views on the board's performance from the executives' perspectives.*

**David Crawford** Chair, Lendlease and South32

The benefit of conducting external reviews is that directors often feel more comfortable providing feedback in confidence to someone they view as independent. This doesn't mean, under an effective chair, that serious issues are left to fester and only raised when an external evaluator is engaged. However, directors feel they can be more pointed with their comments, particularly in relation to the chair, with an independent evaluator. A good evaluator will be able to understand the rationale and psychology of the directors and be able to deliver the feedback productively to the chair (and the board/individual directors), along with recommendations for changes that will improve performance and thus the impact of the board on the business.

The feedback collated by the evaluator is usually first discussed with the chair and then presented to the board. Only in rare cases, where the chair feels some comments are too pointed or can be attributed to an individual, do they modify comments before the board sees them. Usually feedback is presented unfiltered or unchanged to the board, with the chair's role being to suggest what the board could do about the feedback and areas for improvement, incorporating the evaluator's recommendations. The board then discusses these areas and agrees the actions required. Feedback about individual directors is usually reserved for one-on-one discussion between that director and the chair. Feedback regarding the chair's performance is sometimes provided to them by the chair of a committee or by the external evaluator, but all chairs interviewed said the feedback was openly discussed with the full board and that they encouraged a transparent, frank discussion on their performance.

The implementation of these recommendations is the responsibility of the full board. Interviewees all emphasised that there is little point engaging an external evaluator unless follow-up actions are fully discussed, agreed upon and implemented.

A delicate subject is the issue of removing an underperforming director. Most chairs stressed that any underperformance should be dealt with immediately, rather than waiting for the next internal or external board evaluation. Several chairs we interviewed had effected the departure of an underperforming director from one of their boards. The process they undertook was strongly reflected in the verbatim responses in the survey to the question about what should be done about an under-performing director: they firstly gave clear feedback to the director and discussed with him/her ways they could improve their performance and provided adequate time for them to make changes. In cases where this wasn't effective, the chair ultimately encouraged them to resign.

Even more challenging for chairs and boards is effecting the departure of a well-performing director who simply won't meet the future strategic needs of the company.

There is a view amongst the chairs that this will become more common as companies adapt to rapidly changing markets and increasingly link their board succession planning to future strategic needs. However, a large minority (47.5 per cent) of survey respondents said they or their boards had not removed a director who was no longer suitable for the future needs of the company and just under 12 per cent said they only did so if the director was also currently underperforming. The speed of change in operating environments may force a greater emphasis on removing directors who won't meet future needs and ensuring that new appointments possess the skills, expertise, experience and attributes the company and board needs into the future.

**“CHAIRS ARE, HOWEVER, LOOKING FOR A SIGNIFICANT DEGREE OF COMMITMENT TO THE COMPANY FROM DIRECTORS AND THOSE INTERVIEWED VIEW LESS THAN SIX YEARS OF SERVICE BY A DIRECTOR AS TOO SHORT TO DEMONSTRATE LONG TERM VALUE ADDING.”**

However, a surprising number of the comments advocated waiting until the director was up for re-election to effect their departure from the board. Just over half of the survey respondents said they or the board had removed an underperforming director, either immediately or after first providing feedback and mentoring. Yet nearly a third of respondents said they or their chair had persisted with providing ongoing feedback in the hope it would improve their performance rather than encouraging the director to resign and 16.5 per cent didn't even provide feedback but waited until the director had served their full term. This reflects how challenging many chairs still find it to remove an under-performing director. As directors can't be fired by the board itself, rather encouraged to resign, the process can be emotionally taxing and stressful to all parties involved. All chairs stressed that a vote of no confidence at the AGM is to be avoided at all costs.

*There is some hard discussion for chairs to have with individuals who are more from the past rather than for the future. I think it is going to increase the pressure and requirement for nominations committees and chairs to do enormous due diligence on potential appointees and to really think through not just a skills matrix, but also the combination of people and skills on the board.*

**ASX Board Evaluator**

Chairs are, however, looking for a significant degree of commitment to the company from directors and those interviewed view less than six years of service by a director as too short to demonstrate long term value adding. Chairs want a long-term commitment to the company to be evident when interviewing potential board candidates and many view the six-year mark as a checkpoint whether a director should remain on the board.

*I think directors assume, all things being equal and minus any major business or personal disruptions, that if they participate well, do their work and make a contribution, they will serve their full term. This isn't a view that they will be on the board for an open-ended period, but a commitment to the company that spans a series of election periods up to the designated term limit. They feel they are making a commitment to the business to contribute to the long-term sustainable value over a period of whatever it is, be it 9, 10, 12 years and they hope to really add value during that period.*

**Arlene Tansey** NED, Adelaide Brighton, Aristocrat Leisure & Primary Health Care

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In all cases the chairs highlighted that director terms are about expectation management, ensuring directors are consistently performing and discussing director succession and renewal with the board on a regular basis.

*Sometimes there is a reason for keeping a director on longer. Personally I would advocate for shorter terms, as I think you need new energy on the board and new views to make it dynamic. Regulating is a different question though and inherently means you are depriving yourself of a possible avenue which may be of benefit, for formulaic rather than good reasons.*

**Peter Hay** Chair, Newcrest Mining and Vicinity Centres

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## BOARD EVALUATION: GOOD PRACTICE

- 1. Internal and external evaluations:** A combination of regular Internal self-evaluations with a more thorough external evaluation every second or third year appears to result in the right balance of feedback for boards. External evaluations help avoid groupthink or blindness and participants tend to be more open and provide more detail when interviewed by an external consultant.
- 2. Evaluation content:** Whether internal or external, the evaluation should be centred around collective and individual performance and also address future business needs and how the mix and diversity of board skills addresses these and, in the case of external reviews, benchmark against other boards where possible and appropriate.
- 3. Evaluation process:** External evaluations should include face-to-face discussions with each director and with the CEO and leadership team and preferably involve the evaluator sitting in on several board and committee meetings.
- 4. Feedback and action:** Directors need to be willing to change where required and accept the need to depart either because they can't modify their approach or because they don't meet future business needs. The chair should play an active role in providing feedback, with the support of the evaluator in the case of external reviews, and agreeing on an approach to improving individual and collective performance. Feedback to individuals should be given directly to them (by the evaluator) but the full board should discuss the overall review. Either the chair of the nominations or HR committee should be involved in feedback to the chair.
- 5. External evaluator:** The consultant undertaking an evaluation should focus more on performance than governance, preferably have both executive and non-executive experience and understand the nuances of high performing boards.

**“DIRECTORS NEED TO BE WILLING TO CHANGE WHERE REQUIRED AND ACCEPT THE NEED TO DEPART EITHER BECAUSE THEY CAN'T MODIFY THEIR APPROACH OR BECAUSE THEY DON'T MEET FUTURE BUSINESS NEEDS”**

## CONCLUSION

There is an increasingly strong focus amongst chairs and directors on improving board performance and ensuring that their boards are adapting to changes in operating environments and shareholder expectations and contributing to the long-term sustainability of their companies. The board context has changed considerably in the last decade, with chairs and directors more engaged in evaluating their individual and collective effectiveness and planning succession in conjunction with development of business strategy. An openness and willingness to be self-critical and reflective about individual and collective contributions and to encourage diversity of thinking and approach, including as reflected in gender diversity, paves the way for directors to have

better discussions with their colleagues about the future shape and construct of their boards

As boards continue to evolve to meet contemporary business challenges, by improving their succession planning, director appointments and board evaluations, the resulting practices and mindsets will, in turn, encourage greater board diversity – of views, experiences, styles and approaches, including gender diversity, in order to harness the differences amongst directors to ultimately improve the performance of Australian boards and the companies they lead.

**“THE BOARD CONTEXT HAS CHANGED CONSIDERABLY IN THE LAST DECADE, WITH CHAIRS AND DIRECTORS MORE ENGAGED IN EVALUATING THEIR INDIVIDUAL AND COLLECTIVE EFFECTIVENESS AND PLANNING SUCCESSION IN CONJUNCTION WITH DEVELOPMENT OF BUSINESS STRATEGY.”**







FOR MORE INFORMATION PLEASE CONTACT

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