



Board Cultivation of Succession, Diversity and Sustainability (part 2 of 2)

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The previous article on succession and diversity explored the issue of top team succession. Here we consider the broader picture on diversity of talent and succession risks.

DIVERSITY OF TALENT

In the UK, a quota was imposed following the 2011 publication of the Davies Report, which set a target of 25% females on FTSE 100 Boards by 2015 - which was achieved. The subsequent Hampton-Alexander Review (both INSEAD alumni) upped the target to 33%, but, more importantly, reinforced the Davies’s aspiration to drive such targets deep into the FTSE 350, with a focus on the development of a pipeline of women leaders destined for the executive committee.

Taking on these targets, board are starting to take an oversight role and push towards the future, with the UK Treasury (Finance Ministry) setting up ‘Women in Finance’, a programme to require boards to commit to goals for women’s advancement in the financial services sector. Clearly, when the board is in the spotlight, the ‘dial’ starts to shift.

However, succession planning in the context of diversity sets a series of special challenges and questions:

- How interventionist should the board be as it seeks to overcome often decades of stereotypes, assumptions and male-friendly systems
- Influencing the executive pipeline: How to understand the motivations and aspirations of women and minorities, often not voiced in the language of the average corporate business – terms like ‘winning’ ‘destroying’, ‘taking over?’
- Removing barriers: How to unblock the ‘corporate mind’ to overcome years of ingrained assumptions – like skills that are considered feminine – when success was achieved by embodying masculine skills?
- Ending stereotypes surrounding motherhood, commitment to work, female traits e.g. that woman are emotional/cheer leaders/not tough enough.
- Setting internal targets and tracking talent: How to do this without overwhelming the responsibility of the executive leadership?
- Aligning remuneration: How to ensure a ‘holistic’ approach to leadership and remuneration designed to underpin diversity of thought, and gender progression.

As gender pay parity has made a dramatic entry on the UK corporate scene, this ‘voluntary code’ has created a focus on the talent pipeline as the ‘feedstock’ for boards, and on preparing women for roles as directors, by and large avoiding ‘tokenism’.

EXECUTIVE SUCCESSION RISK

The risk elements of the executive pipeline succession are an important consideration, be it continuity risk or longer-term risk of sustainability. Such risks are heightened if there is no established 'culture' of succession planning in the business.

Oversight of the succession/capability risk to the company is vital where the company is moving into new markets /products/ technologies/ territories. The board must be left in no doubt about the risks involved in the failure of a succession plan and sets out appropriate contingencies.

Special consideration should be given to the tenure of the CEO. This should reflect both the executive responsibility of the CEO to plan succession effectively, balanced with the board's responsibility for longer-term sustainability, (the average CEO tenure being 4-6 years).

Boards should be cognizant of the 'blocking' and 'dampening' effects of senior executives in-post for extended periods, not only long-serving CEO's but other key positions. In these situations, effective oversight requires a creative and imaginative approach to executive succession planning.

The Board also needs to be aware of the reputational risk associated with a badly-handled succession process. Where a company is labeled 'diversity unfriendly', the 'professionalism' of the board is undermined. The media and lobby groups throw a harsh spotlight on the board's planning or lack of planning. This requires an increasingly 'holistic' approach to ensure remuneration policies and practices do not create their own succession crisis. It's easy to sign up for targets; the tough part is to deliver. In an increasingly competitive market for top talent, companies must strive to be seen as an attractive employer at the top of the 'diversity' index. The recent launch of a Diversity Indexed Investment Fund in the UK has created an interesting spin on the whole process.

With a more risk-focused approach to succession planning across the company, the board requires sufficient line of sight to ensure appropriate oversight.

BOARD COMMUNICATION AND ENGAGEMENT

In the words of the Chinese proverb "If you plan for one year, plant rice. If you plan for 10-years, plant a tree. If you plan for a 100 years, educate mankind." As boards have increasing impact, effective communication comes to the fore.

Underpinning an effective approach to succession is a sense of ownership of the culture to be passed on through the executive timeline, which should inform the development and succession framework for the company. This in turn requires an engagement across the HR environment with a dynamic strategic plan reinforced by a reward philosophy.

Breaking conventional stereotypes and assumptions about female and minorities career aspirations requires 'out of the box' thinking and accessible role models. This brings us back to the diversity of the board itself? Are they themselves a role model and do they demonstrate diversity of approach and thinking?