

# Chair and Board Succession

*Highlights and Benchmarks Report  
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## Introduction

Our governance clients came to us with these questions:

- “How can we best plan for the succession of our board chair and committee chairs?”
- “What is the current practice in boardrooms for selecting and appointing chairs of the board and committees?”
- “What is going on with terms and term limits for chairs, and directors too?”

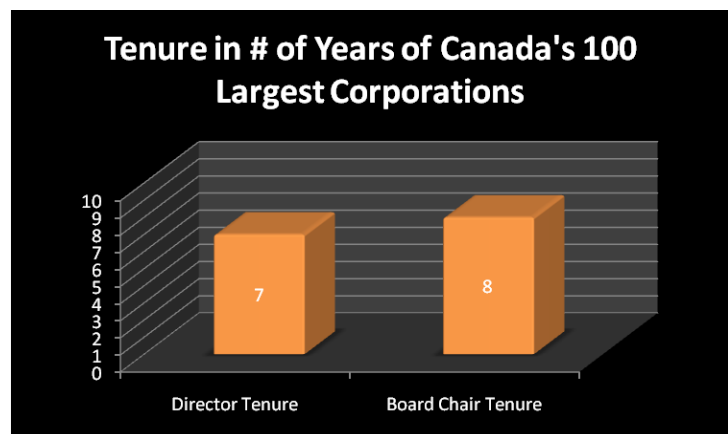
The following highlights are based on new research conducted by Brown Governance Inc. of directorship practices, public company disclosures, and selected interviews with benchmark medium and large reporting issuers.

## Board Chair

- Board Chairs are appointed annually from among the independent directors. The only practice variant at benchmark boards was whether only the independent directors take part in the appointment vote (predominant) or all board members participate.

- For all Canadian firms, 90 per cent of Chairs are non-executive Chairs, and 58 per cent are fully independent (U.S. practice, of course, still varies from this.)

- Board Chairs are almost always selected from among experienced Committee Chairs. An exception is when an individual is specifically recruited for the role.



- The average Board Chair tenure is eight years, for the 100 largest Canadian corporations.
- All benchmark boards have a [combined] Governance & Nominating Committee (GNC) which conducts annual assessments of the board, committees, chair and directors, and which prepares annual profiles of corporate/board needs and skills/attributes.

- Across Canada, 88 per cent of boards conduct formal evaluations, 71 per cent of committees, 88 per cent of individual directors, and 48 per cent conduct a peer assessment of individual directors.
- Combined with informal (offline and open) and more formal discussions, the GNC recommends candidates for appointment by the Board for Board Chair and Committee Chairs. In about half the boards, the formal assessment is the most important input into these choices, in the other half, the corporate needs and director skills profiles are the most important – although in all cases, both inputs are factored in.
- The Board is free to accept the GNC’s candidates for appointment or to choose their own, but in practice virtually always appoints the GNC recommendations.

## Board Vice Chair

- None of the benchmark boards have a Vice Chair.
- Reasons given are fairly consistent – that a Vice Chair position would either not add value, or could even subtract value, given the non-executive Board Chair, and the Committee Chairs, their roles and relationships with the CEO.

## Committee Chairs

- All of the benchmark boards have Committee Chairs appointed by the full Board, on the recommendation of the Governance & Nominating Committee.
- The majority of boards have one year terms (annual re-appointment) of Committee Chairs, occasionally multi-year.
- The second minor variant concerns how the recommendation is made, either by the GNC after informal consultation with the Board Chair (predominant) or jointly and explicitly by the GNC and Board Chair.
- The majority of benchmark boards have a practice (some formal, some informal) to consider rotation of Committee Chairs – one after three years, one between three and five years, and others as needed depending on board/corporate needs and fit. Rotation is one factor considered by the GNC in its deliberations and recommendations. One purpose for rotation is to help identify the best candidate for Board Chair, and to prepare that individual.
- Committee Chairs are typically drawn from experienced members of that committee. One typical board considers and plans the replacement of chairs two years in advance, and designates a successor one year in advance to enhance preparation and transition.

## Committee Members

- All benchmark boards intentionally recruit board members with “fits” for specific board committees; the Governance & Nominating Committee (in one case jointly with the Board Chair) recommends which directors should be appointed to serve on which committees each year, and the Board as a whole makes these appointments, following the GNC recommendations as a rule.
- Rotation of directors through board committees is a general practice of a majority of the benchmark Boards:
  - after three to five years’ service on a committee;
  - all new directors serve on the Audit Committee first to gain an understanding of the financials and the business;
  - rotation is done on an as needed basis with a view to the overall corporation and board needs.
- The average size of the benchmark boards is 12 – the CEO being a board member in all – across Canada, the average board size is 11, with the CEO typically being the only inside board member (if at all.)
- All significant Canadian boards use board committees – on average, between 3 and 6, with outside directors typically serving on one or two board committees.

## Terms and Limits

- All benchmark boards have one year terms for directors (this is the overwhelming norm in the private sector today; and among all Canadian firms, 65 per cent have one year terms).<sup>1</sup>
- None of the boards has limits on the number of terms a director can serve (86 per cent of all Canadian firms have no director terms limits; of those that do, the average is 5 terms).
- One benchmark board has a five year limit on terms for the Board Chair and Committee Chair, although this is not always strictly enforced. No others have term limits for chairs.
- Only 31 per cent of Canadian boards still have a mandatory retirement age for directors; 70 years of age being their norm.
- The average director tenure is seven years, for the 100 largest Canadian corporations.

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<sup>1</sup> Comparison data are drawn from Brown Governance Inc.’s proprietary national governance research, as well as Spencer Stuart’s annual Board Index, and The Conference Board of Canada’s Canadian Directorship Practices.

## Concluding Thoughts

Over the past five years, there has been a significant swing on corporate boards to rely on the Governance & Nominating Committee to undertake the groundwork on profiling, evaluating, and recruiting directors, and recommending appointments to the full Board as a result of this work.

This is consistent with the biggest shift in board governance in the CSOX era (since 2002): that core committees of the board undertake significant slices of its due diligence work, and while the final decisions are still made at the board level, committee work is relied upon to a great extent; in other words, the deliberations are not duplicated at the board level when the decision is made, instead, today's board focuses on ensuring that the committees have done their delegated work diligently.

There are some differences in governance practice when it comes to terms, rotations, and limits. Some boards' philosophy is to rotate directors and chairs, and/or to limit service, to refresh ideas, approaches and relationships. Others prefer to review tenure situationally, and rotate or limit based on needs.

Finally, one practice which has largely disappeared in the private sector, but still flourishes in other sectors (public, co-operative, not-for-profit) is that of staggered three year terms. This has been replaced by one year terms in publicly-traded firms since investors perceive this ensures all directors are accountable each year. However, the cost of this practice is to risk a significant loss of corporate memory and leadership continuity which is the strength of three year staggered terms.