

The NomCo Chair's View on CEO Succession



Few boardroom activities are more consequential than CEO succession planning, and many directors would argue that it is the single most important thing they do. Determining who leads the company impacts everything from strategy and operations to culture, talent, and the company's role in society. Boards are spending more and more time on succession-related activities, reflecting not only their concerns about executive leadership, but an awareness that a successful succession event takes years to pull off.

Russell Reynolds Associates recently launched an in-depth study of nominations and governance committee (NomCo) chairs, including surveying 147 chairs from leading companies across industries and around the world (see methodology note for demographic details). NomCo chairs hold a unique leadership role on the board, influencing everything from who becomes CEO to who joins the board and which directors are asked to take leadership positions. CEO succession was one of many subjects these board leaders talked to us about. Here are three big takeaways from what they told us:

78%

of NomCo chairs listed CEO succession and selection among their top three responsibilities

CEO succession is job number one:

When asked to rank a number of boardroom issues by relative importance, CEO succession and selection came out on top by a large margin. Seventy-eight percent of NomCo chairs listed it among their top three responsibilities, a whopping 26 percentage points more than the next most identified topic. There was no deviation on this across regions: NomCo chairs in the Americas, Europe, and Asia Pacific all had it in the number one spot - a rare point of unanimity.



45%

of NomCos discuss the issue at at least half of their meetings each year

While CEO succession is important, it is also an area of concern:



Although 45 percent of NomCos are discussing CEO succession during at least half of their meetings, this is a low level of attention compared to other topics we discussed with them. This may indicate that NomCo chairs are already making steady progress toward a plan and don't need to address the topic as often as a result. More concerningly, it may imply that their focus on CEO succession planning has been backburnered as other issues became more important during the challenges that arose in 2020. Those same challenges may lead the NomCo to realize their succession efforts now require a complete overhaul given the new insights the board has gained about either the current incumbent or potential successor candidates.

The most pressure to act on CEO succession is coming from ...

47%

other board directors

28%

the board chair or lead director

The pressure on CEO succession planning is coming from fellow directors:



When asked to identify where the most pressure to act on CEO succession is coming from, NomCo chairs said it was coming from the board itself, specifically the board chair or lead director (28 percent), and other board directors (47 percent). Institutional shareholders came in a distant third (12 percent), likely indicating that in most cases investors - while undoubtedly recognizing the critical importance of CEO succession to the value of their investment - are comfortable letting the board address it without undue outside influence.

CEO succession planning is one of the board's most important responsibilities, and the decision of who takes the top role has lasting implications for the company and its stakeholders. While CEO succession can be a sizable undertaking, NomCo chairs clearly recognize the responsibility the board has to do the job well.

Methodology

Russell Reynolds Associates surveyed 147 NomCo chairs in December 2020. In the case of a respondent who served as the chair of two or more NomCos, they responded on behalf of the NomCo they had chaired the longest. The companies they served were based in 19 countries, including the United States (37 percent), United Kingdom (20 percent), Canada (12 percent), Australia (10 percent), and France (3 percent). The largest industries represented included industrial and natural resources (25 percent), financial services (17 percent), technology (16 percent), and healthcare and consumer (both 14 percent). Eighty-eight percent are publicly traded. Fifty-one percent reported annual revenue exceeding \$1 billion.

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