2019 HR@MOORE

Survey of Chief HR Officers

BUILDING THE BOARD:

Result of the 2019 HR@Moore Survey of Chief Human Resource Officers

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EXECUTIVE SUMMARY

The 2019 HR@Moore Survey of Chief HR Officers examined a number of aspects of the Board of Directors (BOD). This report describes the results of this survey.

We find that 64% of the companies surveyed have an independent Chair of the board with the other 36% having the CEO also hold the Chair title.

CHROs do not evaluate boards as being particularly effective regarding the major tasks entailed in CEO succession. We found that responsibility for CEO succession is most often housed with the board chair/ lead director (rather than a committee), both as an ongoing process and as the decision becomes more imminent. Respondents were relatively equally likely to suggest that CEO succession responsibility lies with the Compensation committee and the Nominating and Governance committees for the ongoing CEO succession process, but as it becomes imminent, Compensation committees seemingly transfer responsibility to board chairs/lead directors.

We found that women comprise approximately 28% of board members, with a maximum representation of 50%. Most CHROs reported that women directors do not face unique challenges, but when they do, they do not have equal influence or "voice" within the board relative to their male counterparts. Similarly, a large number of CHROs reported that their companies do not have unique obstacles to attracting women directors, but an almost equal number noted the lack of supply and consequent competition for qualified women directors.

CHROs reported the cohesion and diversity/ inclusion climate of boards using the same items as used in past reports on the Executive Leadership Team (ELT). The results show that boards tend to score higher regarding diversity/inclusion climate and lower on cohesion, suggesting that the independent nature of board members requires them to appreciate and incorporate the diverse perspectives of other members, but not necessarily to work well as a team.

Finally, we found that almost all boards conduct assessments every two years, and these usually consist of surveys asking them to assess themselves and the board's functioning overall.

BOARD OF DIRECTORS

The 2019 HR@Moore Survey of Chief HR Officers focused on three main areas. Previous reports have described the results regardging the CHRO's role in culture and the composition and functioning of the executive leadership team (ELT). In this report we turn our attention to analyzing the data regarding the board of directors (BOD). In particular we focused on the board's governance structure and composition, the cohesion and climate of the board, and the board's assessment practices.

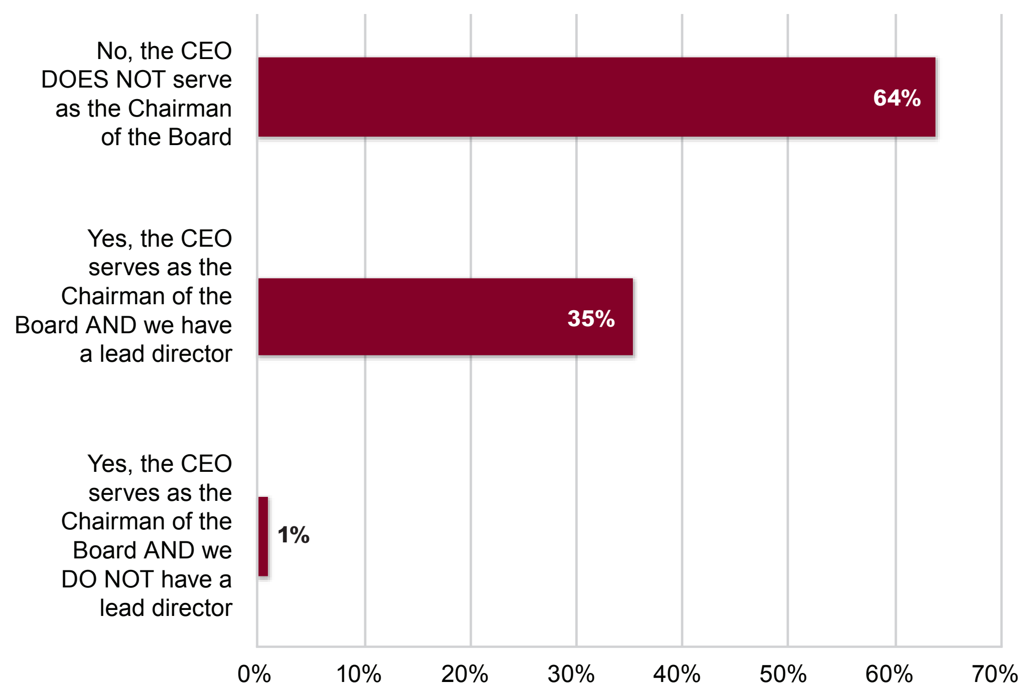
Governance Structure

We first sought to explore the actual governance structure of the board. Many have called for the separation of the CEO and Chairman of the Board roles due to concerns that when CEOs also hold the Chairman title, it may give them too much power over the board. Others have noted that the evidence does not necessarily support that suspicion, and that because CEOs have a deeper view of the company, the unity of command that is afforded by having a single person serve as the head of the company and the board is an appropriate structure. So, we first asked about the leadership structure of the board. These results are displayed in **Figure 1**.

These results show that among the companies in our sample, the vast majority (64%) have an independent chair of the board and only 36% have the CEO also holding the Chairman title. Interestingly, of these 36%, 35% have a formal lead director, but 1% have no lead director, giving the CEO considerable authority over the board.

Figure 1

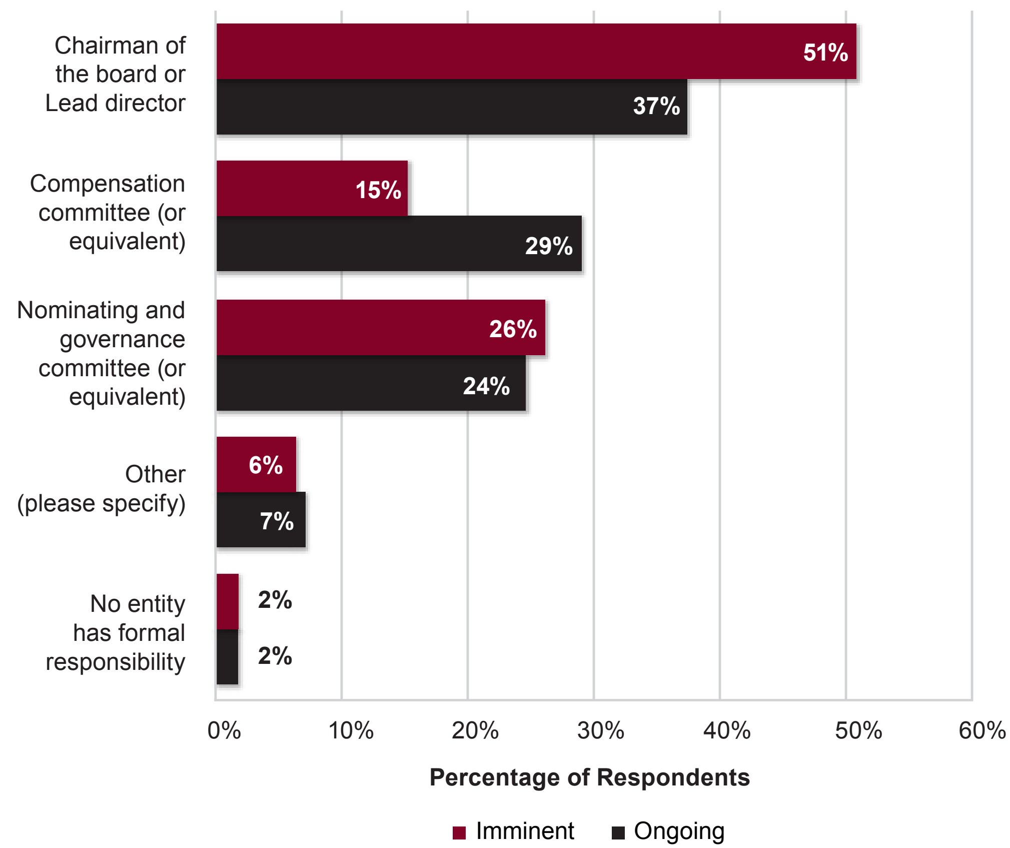
Governance Structure



Prior survey reports illustrate that the board has taken a greater ownership role in CEO succession planning; however, little is known about how the board structures its CEO succession responsibilities and divides authority. Thus, we asked about what entity, within the board, has been delegated primary responsibility for CEO succession planning, both as part of a normal ongoing CEO succession process and as the succession becomes imminent. **Figure 2** shows that the Chairman or Lead Director seem to be the most popular holders of responsibility for the process, both ongoing (37%) and then even more so as the succession becomes imminent (51%). Our results suggest that the imminent responsibility for CEO succession transfers to the Chairman/Lead Director from the Compensation committee. The Compensation committee is the second most popular holder of ongoing succession responsibility (29%), but in about half the cases that responsibility shifts to the Chairman/Lead Director as the decision approaches. It seems that when the Nominating and Governance committee holds responsibility for the ongoing process (25%) they are also likely to maintain the responsibility as the decision becomes imminent (26%). It should be noted that in more than 50% of cases primary responsibility for ongoing succession planning is devoted to a committee versus a single individual (37%). The other category primarily was represented by companies who denote the "full board" has ongoing and imminent responsibility. Encouragingly, only 2% of respondents indicated that there is no formally defined responsibility among directors for CEO succession planning.

Figure 2

Succession Planning Responsibilities

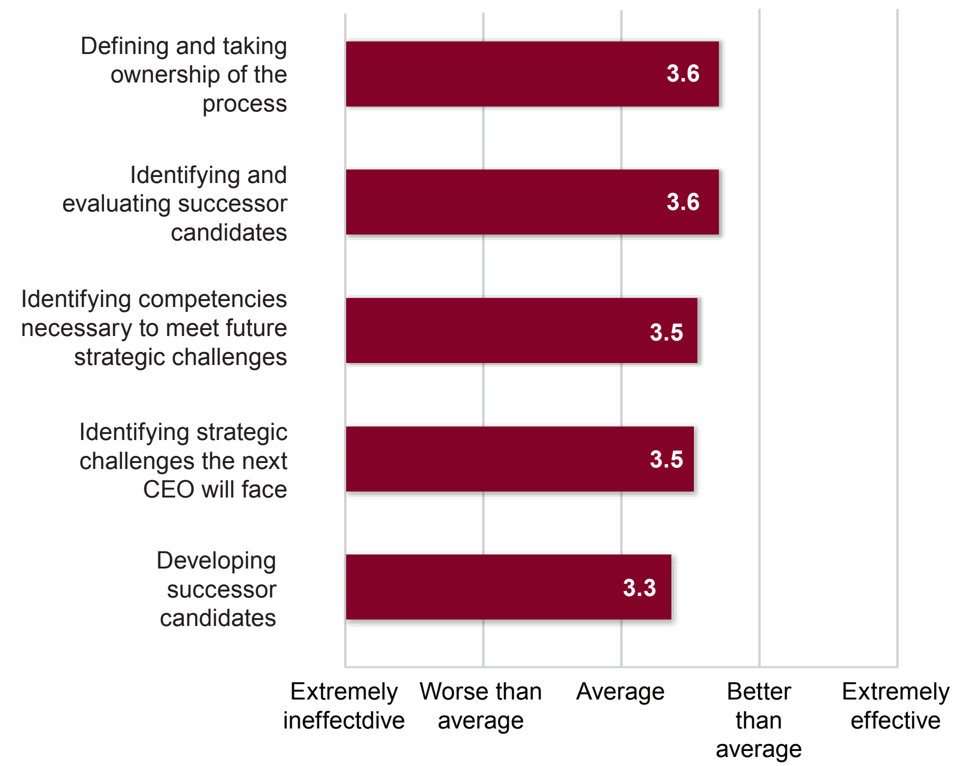


BOARD OF DIRECTORS

We then asked the CHROs to evaluate the effectiveness of the board's performance in five aspects of the CEO succession process. **Figure 3** displays these results. As can be seen in the figure, CHROs do not provide high average ratings in any aspect of the process. In terms of defining and taking ownership of the process and identifying and evaluating succession candidates, CHROs provide only a 3.6 (slightly better than average) rating. They are scored slightly lower in their efforts to identify the future strategic challenges and then the corresponding necessary CEO characteristics (3.5). Finally, they score lowest in developing successor candidates (3.3). While the prior results indicated that boards are delegating formal authority for managing the process to entities or individuals on the board, there is considerable room for these parties to improve upon the effectiveness of CEO succession planning activities. Specifically, these findings may suggest that while boards are more likely to take ownership of the decision, the intermediate processes that are critical to enhancing the effectiveness of the ultimate succession decision are less effectively run by the board. Instead, this may be the most critical interface point for management (particularly the CEO and CHRO) to work with the board to develop appropriate developmental plans and provide opportunities to enhance candidate readiness.

Figure 3

Board Succession Planning Effectiveness



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Female Directors

Another current important issue for boards is their composition. Boards have been under more pressure to diversify the race and sex make-up of their members. Absent wholesale transformation of a board, this process takes significant time as board seats become open due to retirement or other forms of board member turnover. We focused our questions this year on women on boards.

First, in terms of the number of women serving on boards we found that our participants reported an average of 2.86 women out of an average of 10.16 members. In other words, women comprise 28 percent of board members at the companies represented in our survey. In addition, the maximum number of women was 6 and the maximum percentage of board members was 50% and these represent companies who seem to have succeeded in developing a diverse board in terms of women.

We then asked if women board members faced any unique challenges. We were pleased to find out that most respondents (30) noted that there were no differences in the kinds of challenges faced by female as compared to male board members. Where CHROs noted differences, the most frequently cited (16) challenge was "being heard." A few participants noted that women board members did not have the same experience as men, and two noted that women seemed to be perceived as having certain expectations regarding their style or role. Some examples are provided in **Table 1**.

Table 1

Unique Challenges faced by Female Board Members

Being heard and the opinions valued in the same way as those of the male members	Being viewed as part of the "In Group", having their voice viewed as credible
Strong male personalities tend to dominate the conversations	When there is only one, it is less effective
Both women have less experience serving on boards than the older men. Their input is still highly valued, although it tends to be a bit more operational than strategic	They are often expected to be experts on the softer (cultural, people) issues when in fact they are not. Since women are presumed to be nurturing, they are often believed to be better with people and cultural issues.
Only one female board member, not always included; gets stuck with admin work	Often has to be the voice of diversity and inclusion

BOARD OF DIRECTORS

Given the fact that most boards desire to diversify their composition, we asked about the challenges the board faces in recruiting or attracting female directors. The most frequent response was that they had no issues at all (27). However, "Lack of Supply/Competition for Women Board Members" followed closely (26). Finally, "Internal Obstacles" was mentioned by seven participants. Some examples of their responses are provided in **Table 2**.

In summary, the responses from CHROs are both promising and troubling. Clearly there are boards with multiple women who are valued and heard the same as their male colleagues. However, just as clear is the fact that some boards may have gotten over the "diversity" hump, but have yet to master the "inclusion" process. In these cases women directors are at the table, but seemingly treated as second-class board members whose input is not received with the same credibility as their maile counterparts. In addition it seems that while the supply of women directors is tight and the competiton for them is high, boards that resolve to find effective women directors can succeed in their efforts. However, it is worrisome that some boards may create hurdles that are comparatively difficult for qualified female directors to overcome that might decrease the effectiveness of boards at recruiting qualified female candidates. It also seems that some may find the task challenging and consequently give up.

Table 2

Challenges in Attracting Female Directors

None. We are attractive to female candidates because of our international reputation and predominantly female workforce.
We have had good luck recruiting female directors, primarily by being clear with our external recruiting partners about our requirement for a diverse slate of qualified candidates.
With each successive female director add, attraction has become less and less of an issue.
Availability of female leaders in CEO or President roles.
Current directors insist on current or former CEO of major company as a filter. This significantly narrows the pool.
Great female directors are in high demand. We have had good success in our recent recruitment though
If the board decides this is important, it is not difficult. Strong female directors are in very high demand. Planning and resolve gets the job done.
Lack of track record with female directors
Seek "those they know" vs willingness to take risk with unknown diverse talent.

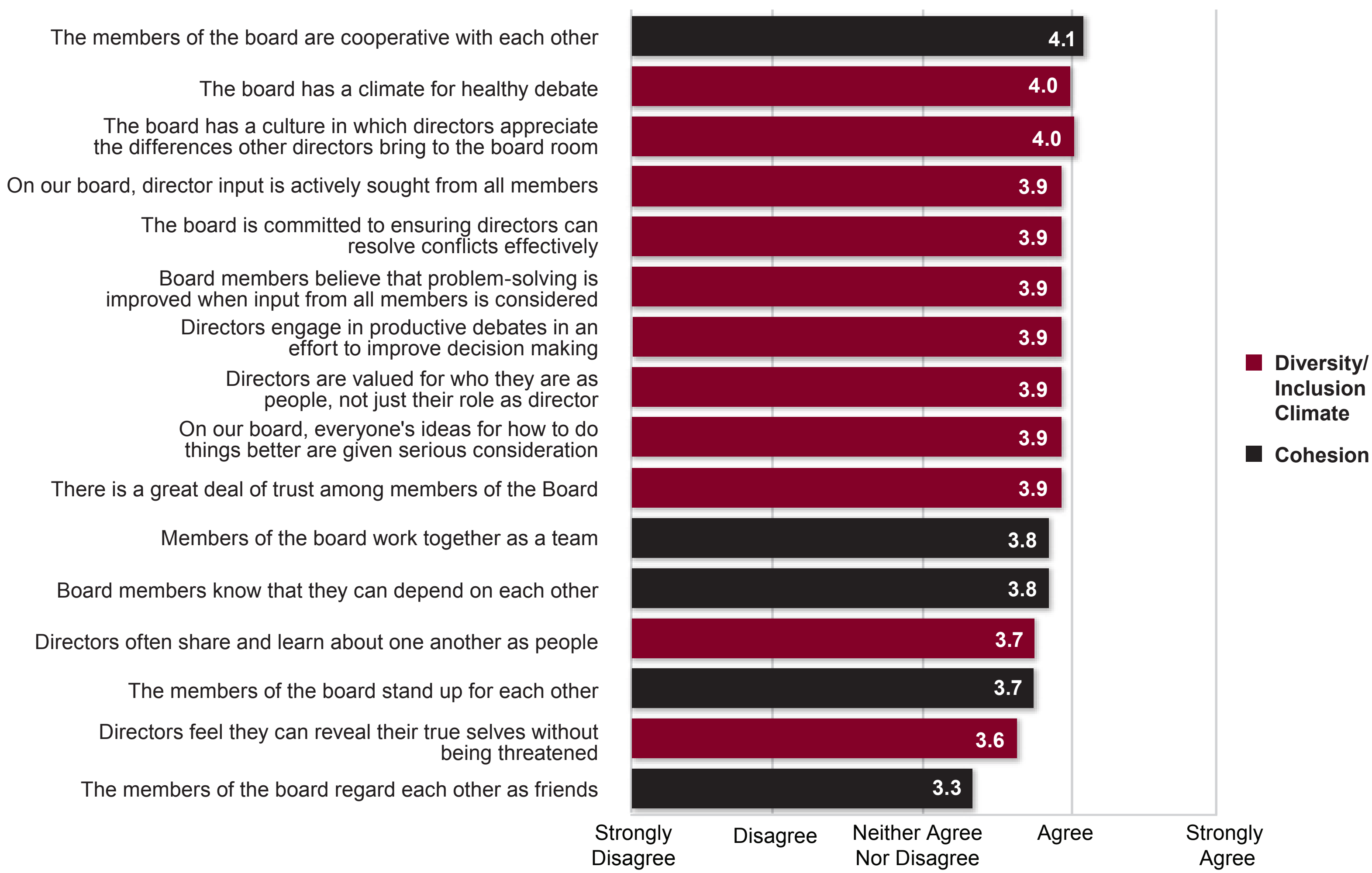
Board Cohesion/Diversity/Inclusion Climate

The last report regarding the ELT described the cohesion and diversity/inclusion climate of these teams. We asked CHROs to evaluate the BOD on these same items. **Figure 4** displays the results. Similar to the results regarding the ELT, boards scored highest in terms of “Cooperating with Each Other” and lowest on “Regard Each Other as Friends.” Also, the overall distribution of scores (3.3 to 4.1) for the board corresponds closely to the distribution (3.3 to 4.2) for the ELT. However, the ranking of items differs substantially between boards and ELTs. For instance, for the ELT, three of the five cohesion items appeared in the top four scoring items, and the other two in the bottom 5. However, with the board, only one of those items appeared in the top five, and the other four were in the bottom six. In particular the item about “Know They Can Depend on Each Other” was the second highest (4.1) among ELT members, and the fifth-lowest (3.8) among board members. Thus, our survey responses seem to indicate a relatively low level of cohesion among board members.

Boards tended to be slightly higher in terms of Diversity/Inclusion Climate. For instance, the second highest board items was “Climate for Healthy Debate” (4.0) compared to being the bottom half (3.8) amont ELTs. These results seem to accurately represent that boards and ELTs have different operating requirements. ELTs work better the more members exhibit cohesiveness due to their interdependence on one another. Boards, on the other hand, represent individual contributors who need to express and appreciate diverse perspectives, but they are not necessarily a tight knit unit. In other words ELTs require cohesiveness because of the interdependence among the members, but boards require diversity/Inclusion because of the independence of their members.

Figure 4

Board Cohesion



Board Assessment Practices

Finally, we asked CHROs about how their boards conduct assessments in terms of the methods, frequency, content, and criteria. First, as can be seen in **Figure 5**, almost 60% of boards use internal processes to conduct evalutions, 15% use third parties, and 15% a mix of internal and third party processes. Only 11% indicated that they do not conduct assessments.

Figure 6 displays the results regarding how boards conduct their assessments. These results indicate that surveys are by far the most popular method with 71% conducting self-assessments, 70% assessments of the board overall, and 52% assessments of other board members. Just under a quarter of boards conduct interviews to assess the board overall (23%) and themselves (22%). However, interviews seem to be used more (31%) when evaluating other board members.

Figure 5

Board Formal Assessment

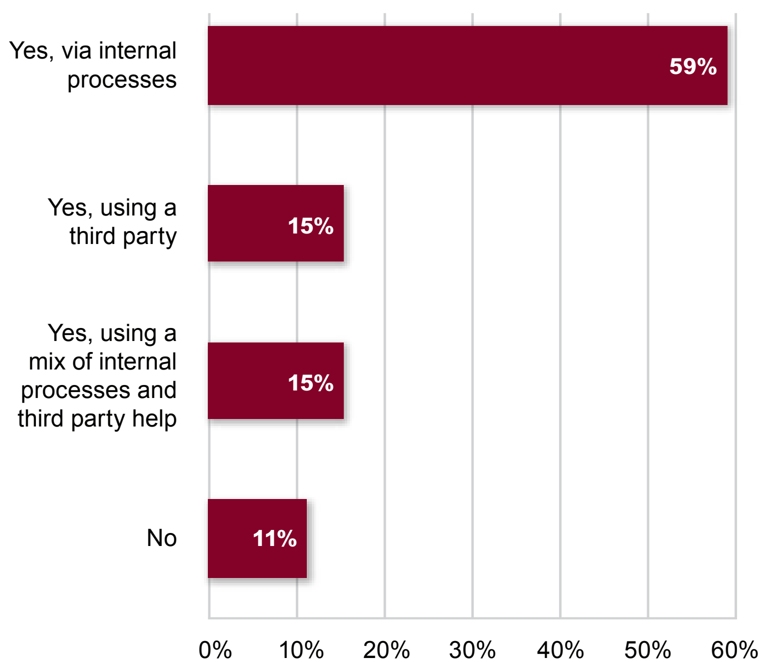
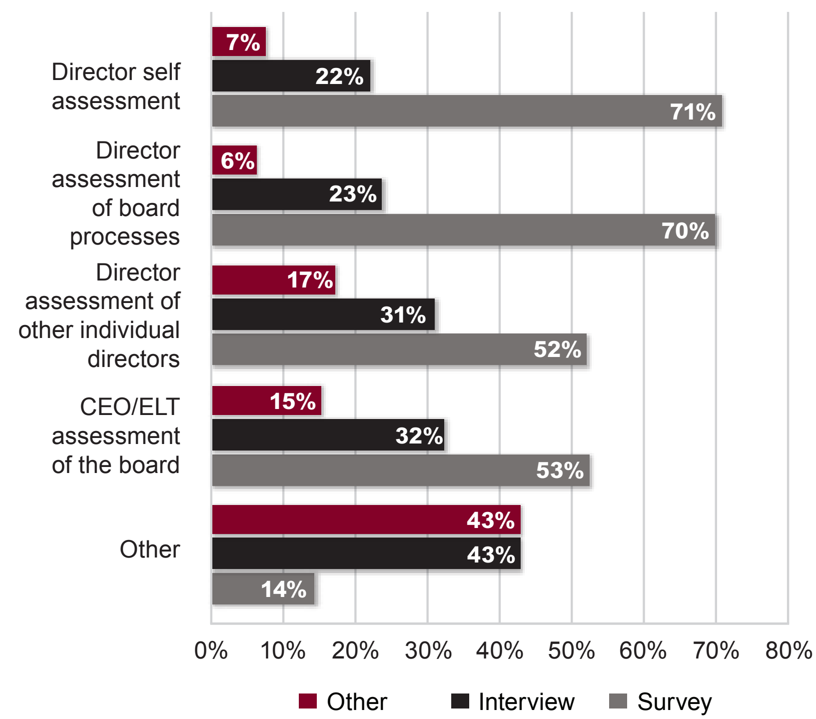


Figure 6

Director Evaluation Methods



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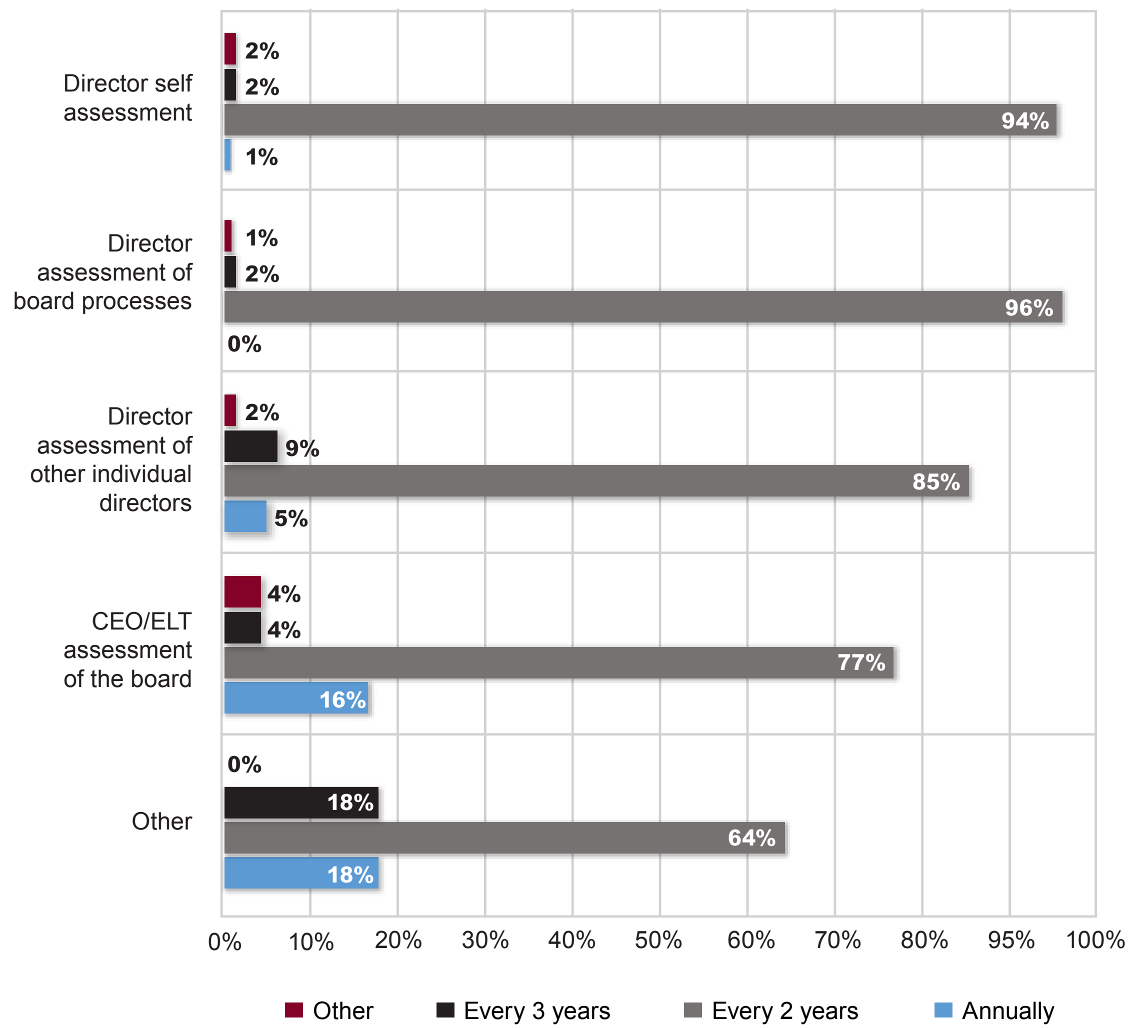
In terms of frequency of assessments, clearly a most popular practice emerges as can be seen in **Figure 7**. As the figure displays, over 90% of boards conduct self and board process assessments every 2 years. Similarly, when evaluating other board members (85%) and asking the ELT to evauate the board (77%), they do so every two years. Thus, while some boards conduct assessments of any kind more (annually) or less (every 3 years) frequently, these are clearly outliers.

Figure 7

Director Evaluation Frequency



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We also asked CHROs to indicate the content of assessments based on the criteria they use to evaluate individual directors. As **Figure 8** shows, almost all our participants (92%) noted that directors are assessed on their engagement in meetings, followed by Preparedness (86%), Knowledge of the Company (83% and Communication with Other Directors (79%).

Also, because most companies ask directors to assess the board as a whole in terms of its functioning, we asked about the criteria they assess as part of that process. Again, as **Figure 9** shows, almost all (97%) assess the Board Member Knowledge and Capability Mix. They also almost always assess Monitoring of the Company's Risk Strategy/Appetite (93%), Engagement in Meetings (92%), and Oversight of Committees (92%). Interestingly (particularly from our perspective) is that only 73% of boards evaluate their effectiveness regarding succession planning. This result is surprising because we often hear and read about board members saying that succession is their most (or one of the two most) important responsibilities. Also, this result may explain our previous results about the overall lack of effectiveness of boards in CEO succession planning tasks.

Figure 8

Individual Director Evaluation Criteria

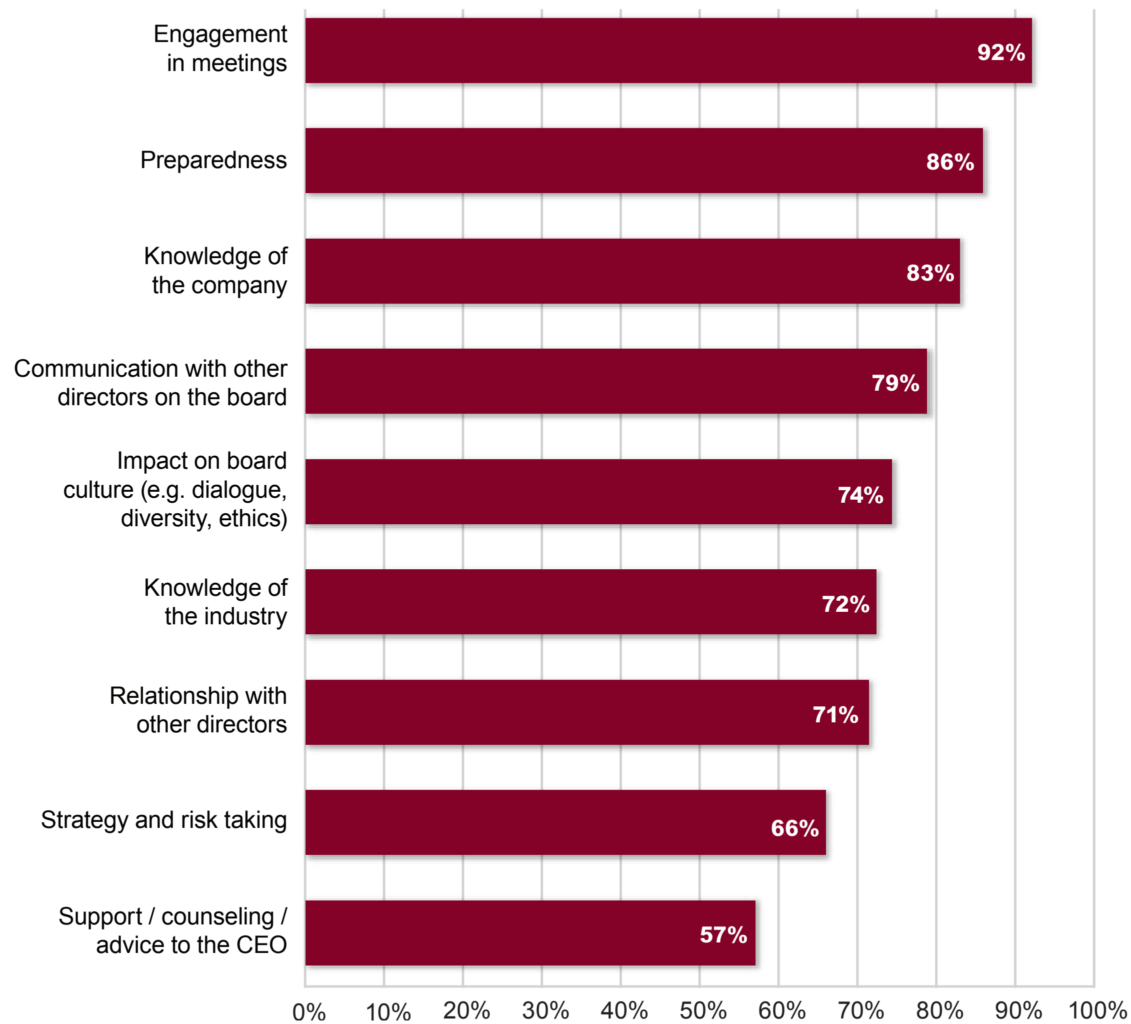

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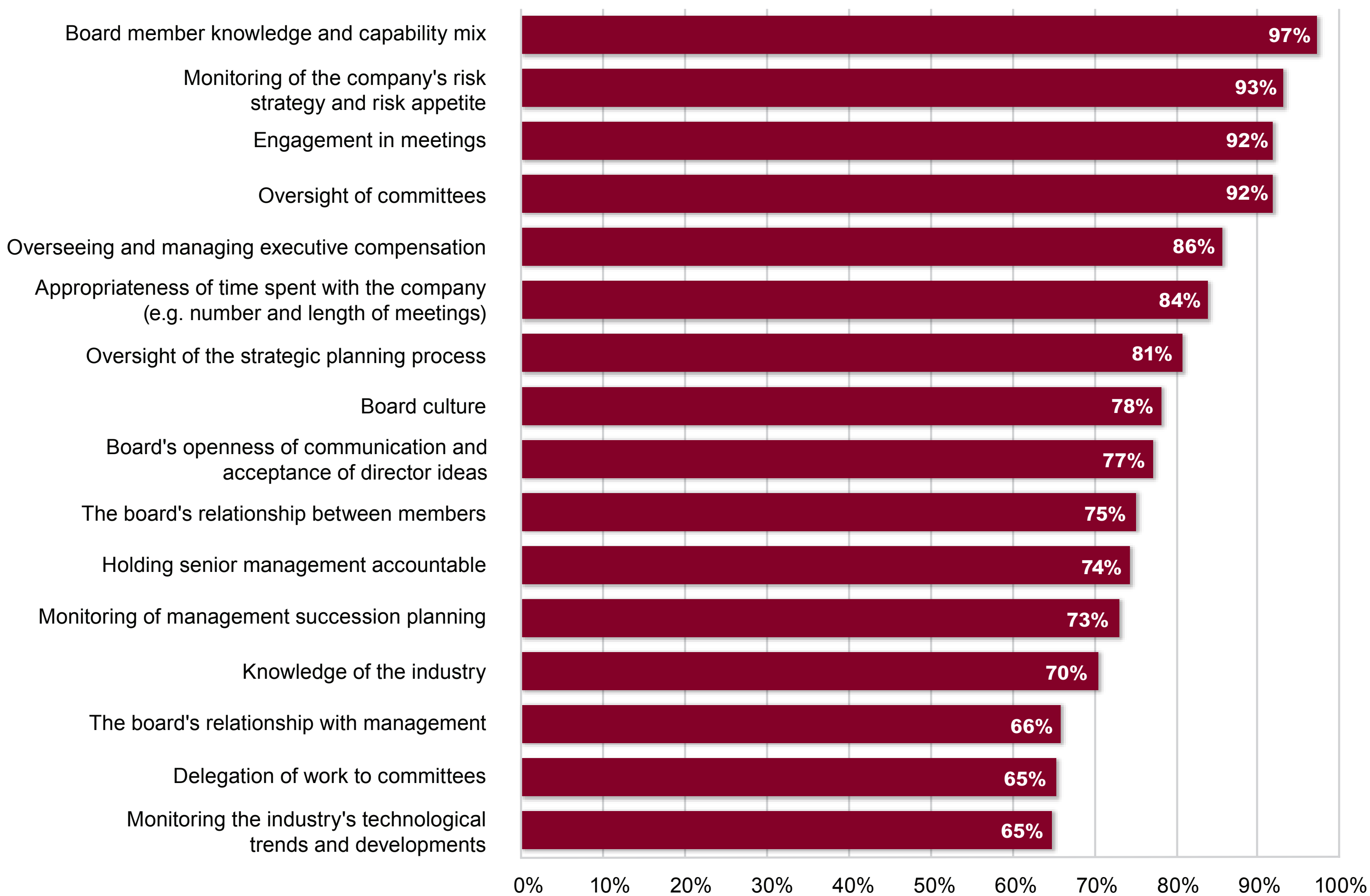
Figure 9

Board Evaluation Criteria (Group)



“…only 73% of boards evaluate their effectiveness regarding succession planning. This result is surprising because we often hear and read about board members saying that succession is their most (or one of the two most) important responsibilities. Also, this result may explain our previous results about the overall lack of effectiveness of boards in CEO succession planning tasks.”

SUMMARY AND CONCLUSION

This report finds that boards have significant opportunities for improvement in their role in CEO succession. The fact that there does not seem to be a consensus regarding the proper home for responsibility for the process (chair/lead director, Compensation committee, Nom/Gov committee) suggests that the governance process has not attracted rigorous research.

While 28% of board members are women, they do not seem to face unique challenges once on the board, and companies report being successful at attracting women directors, even these results suggest room for improvement. First, the apparent requirement among many firms that women board members must have experience as CEO or President certainly limits the pool of potential directors. We strongly believe that many of these requirements are unnecessary. For instance, having the perspectives of a few current or former CEOs is certainly valuable, but anecdotal evidence suggests that too many CEOs on a board may result in increased conflict and division. Given the broadening scope of board responsibilities (e.g., overseeing human capital and risk) perhaps expanding relevant backgrounds to CHROs and GCs might be one way to expand the pool of women directors while simultaneously expanding/broadening the skill profile, rather than simply further deepening the skill profile by adding more CEOs.

Second, the fact that once on the board, many may face subtle discrimination through not being "heard" to the same extent as their male counterparts, also suggests that many boards have quite a ways to go. Work on implicit bias may help explain why older male board members who have not had extensive experience working with women senior executives may help explain why they seemingly discount the input of women directors. Perhaps more specifically assessing how open board members are to other input, particularly from women, might be a first step in ensuring that boards move beyond diversity to fully embrace inclusive culture within the board.

Finally, our findings regarding board assessment practices seem to indicate very strong consensus regarding practices, methods, and criteria. However, the fact that almost all companies do something does not mean that the something is correct. For instance, our work with CHROs and boards notes that many boards have one or more individuals who do not seem to be contributing sufficiently. Yet our results show that assessing individual directors does not happen much. Such assessments may help to create more turnover among low performing board members, creating opportunities to fill those slots with qualified diverse candidates.

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The Center for Executive Succession serves as an independent, objective source of knowledge regarding C-suite succession practices. The center provides a forum for corporate leaders to shape the future direction of succession practices, which are increasingly one of the board's top governance priorities. Our partners have the opportunity to contribute to cutting edge research that challenges the status quo and is empirically driven to further success in C-suite succession planning. For more information or to inquire about potential membership, please visit our website or contact us at CES@moore.sc.edu.

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The Darla Moore School of Business at the University of South Carolina is home to a world-class faculty and eight major research centers. It is committed to educating leaders in global business and to playing a central role in the economic growth of the state by bringing the world to South Carolina and South Carolina to the world.

Founded in 1919, the Moore School has a history of innovative educational leadership, blending academic preparation with real-world experience through internships, consulting projects, study abroad programs and entrepreneurial opportunities. The Moore School has grown into a thriving site of academic excellence with an enrollment of more than 5,500 undergraduate students and more than 800 graduate students. The school offers a wide range of programs in nine undergraduate concentrations, seven master's degree and two Ph.D. degrees as well as executive education programs and consulting services to the business community.

In 1998, the school was named for South Carolina native Darla Moore, making the University of South Carolina the first major university to name its business school after a woman.

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