

Board Leader Succession Planning: 4 Essential Steps for Chair and Lead Director Transitions



The independent board leader is the lynchpin to an effective board. Whether independent chair or lead independent director, this boardroom leader wears many hats, including serving as the board's primary liaison to the CEO; setting and modeling the tone and culture of the boardroom; ensuring the board is spending the right amount of time on the right issues; and leading the independent directors. Given the importance of the role, the board has a vital responsibility to determine the optimal board leadership structure, appoint the right independent board leader and plan for board leadership succession.

Changes in board leadership most commonly result from three key events: a CEO change, re-consideration of the CEO's role in the boardroom, and the rotation or departure of the current independent board leader. Ideally the nominating/governance committee proactively plans for these scenarios. However, when we surveyed U.S. directors about board leader succession, only half indicated that their board has a formal or informal succession plan for board leadership, and just one-quarter said a formal plan has been documented or shared with the full board.

Boards typically devote extensive time to CEO succession, but far less to board leadership succession — even though the two often coincide.

Why is board leader succession planning often overlooked?

Board succession needs can be predicted well in advance, but the surprising truth is that most boards spend little time on it, too late in the process, leaving them unprepared. In our experience, boards can be reluctant to raise the issue of board leadership succession and instead wait until events force the issue, which can lead to less-than-ideal outcomes.

Planning ahead is more important than ever. Plenty of CEOs are likely approaching retirement: 34% of S&P 500 CEOs have served in the role for eight years or more, and 25% have served for at least a decade. Most of these longer-tenured CEOs — close to 70% of CEOs in the role for a decade or more — also chair the board. Looking at independent chairs, 43% have led the board for five or more years, indicating that many boards are approaching a natural inflection point for leadership transition. While boards typically devote extensive time and focus to CEO succession planning — it can be a major agenda item for a year and often longer, and the intensity of board focus grows as the decision is in sight — in our experience they devote far less attention to board leader succession. Even though they often coincide, the two should be considered together.

To help boards up their game, we've identified four key steps boards should follow to prepare for a board leader transition. Given the sensitivities that may arise when planning for leadership succession, some boards have benefited by retaining an independent third party to objectively and confidentially assist.

Step One: Formalize governance for board leadership appointments and succession

Every board should ensure responsibilities for board leadership succession planning and leader appointments are formally assigned to a board committee — usually the nominating/governance committee. These responsibilities should be defined in the committee charter. Generally, the designated committee is responsible for evaluating options and then making recommendations for full board approval.

Absent clarity, too often we see the departing board leader assuming he/she has the authority to anoint the CEO or another director as successor and even change the leadership structure. The end result? Not all options and alternatives were considered; the decision lacked transparency; and board culture and collegiality may be damaged as a consequence. In our director survey, lack of preparation was the most common reason for a bumpy board leader transition. Among directors describing their board's last leadership transition as challenging, 43% said the timing was forced by an unexpected event (retirement, crisis, etc.); 31% cited insufficient preparation or development of the successor; and 27% blamed the lack of an identified successor.

Best practice? Establish a structure for these decisions and put it in writing. This includes developing new role descriptions to differentiate the roles of CEO, chair (non-executive or executive), and lead director, and ensuring there are plans in place for an emergency chair transition as well as an orderly succession. Transparency, accountability and alignment on board and committee roles and responsibilities are foundational to effective governance around board leadership appointments and succession planning.

Step Two: Reflect on board leadership structure

The responsible committee should at least annually proactively evaluate the effectiveness and appropriateness of the board's leadership structure, scenario plan for potential future changes and report back to the board. As a practical matter, most boards will determine which of the two most common structures is best for the company: a CEO who is also chair paired with a lead independent director or an independent chair paired with a CEO.

Shareholders give U.S. companies latitude when it comes to board leadership structures. Institutional investors typically defer to the board on independent leadership structure but expect a clearly defined and formalized role for a strong independent leader.



The succession questions boards should ask

Key transition scenarios

- » Departure of CEO
- » Departure of independent chair
- » CEO advocates for chair title
- » Investor pressure for change

Succession planning considerations

- » What leadership structure is the best fit for the board, the CEO and forward-looking governance needs?
- » Should the board's leadership structure be fixed or flexible based on the circumstances of the board, the CEO and governance needs?
- » In the case of an independent chair structure and a flexible philosophy around board leadership, when and how should the board determine if the CEO should be appointed chair?
- » What feedback have we received from our shareholders about our board leadership structure?
- » What are board leadership trends, overall and sector-specific?

The trends — consistent across large-, mid- and small-cap boards — are clear:

- » U.S. boards are increasingly separating the chair and CEO roles and naming an independent chair. Today, 61% of S&P 500 boards and 68% of S&P MidCap 400 boards separate the chair and CEO roles, and 41% of S&P 500 boards and 49% of MidCap 400 boards appoint an independent chair. Generally, as company size (revenues, market capitalization) decreases, the prevalence of independent chairs increases. These percentages have slowly increased every year over the past few decades.
- » Today incoming CEOs are rarely appointed chair at the start of their tenure. The proportion of S&P 500 CEOs also named chair at appointment has decreased by more than 40% over the last two-plus decades. In 2024, only 5% of new S&P 1500 CEOs were also named board chair upon appointment, a small uptick from 4% in 2023.
- » Most CEOs ultimately appointed will be appointed by their third year, with the most significant rise after the first year of tenure. However, this trend has continued to decrease over time.

The chair title is rarely stripped from a U.S. CEO. As a result, changing the board leadership structure is generally only done with a CEO change. Of the S&P 500 boards with combined chair/CEOs, more than three-quarters (77%) haven't had a CEO change in at least five years. Change is inevitable, so boards should prepare as they look to the future.

Boards should never simply assume the current structure — whatever it is — is the appropriate one for the short, medium or long term. Boards should have a thoughtful process to consider key scenarios and plan for the future.

What's the role of an outgoing chair/CEO?

One of the most complex and sensitive situations in a board leadership change is when the succession involves the departure of the combined chair/CEO.

- » Should the outgoing chair/CEO be appointed executive chair?
- » Should the outgoing chair/CEO be appointed non-independent chair?
- » Should the outgoing chair/CEO continue as a non-independent director?
- » Should the outgoing chair/CEO have a short-term consulting role post-retirement?

Our view? This decision is highly dependent upon the business circumstances and the individuals involved. Some incoming CEOs welcome the presence of the outgoing CEO in a board leadership role (for a defined period) so they can focus fully on running the company; other incoming CEOs find the presence of the prior CEO in the boardroom can inhibit discussions around certain topics, cause confusion about “who is really in charge,” and constrain or slow needed changes. Under any circumstances, the continuation of the outgoing CEO on the board should be for a clearly defined, brief period.

Few outgoing chair/CEOs remain on the board as a non-independent director, but some do remain on as executive chair or non-independent board chair. Of the 41 S&P 500 companies with a new CEO last year, nine appointed an executive chair and seven of those were the former CEO. When appointing the outgoing CEO as executive chair, boards frequently cite the value of the former CEO's deep knowledge of the company, its businesses, strategies and culture and say splitting the roles enables the new CEO to initially focus on learning about and running the company, while the chair focuses on running the board.

Best practices appointing the retiring CEO as executive chair or non-independent chair

- » **Set expectations:** Communicate that the board role is for a defined period.
- » **Define:** Ensure the roles and responsibilities of the executive chair or non-independent chair are formalized and clearly understood by the chair and the CEO.
- » **Reinforce expectations:** Emphasize that the board plans to reconsider the board leadership structure as the new CEO matures in the role and expects the former CEO to retire from the board to facilitate a desired change in board leadership.

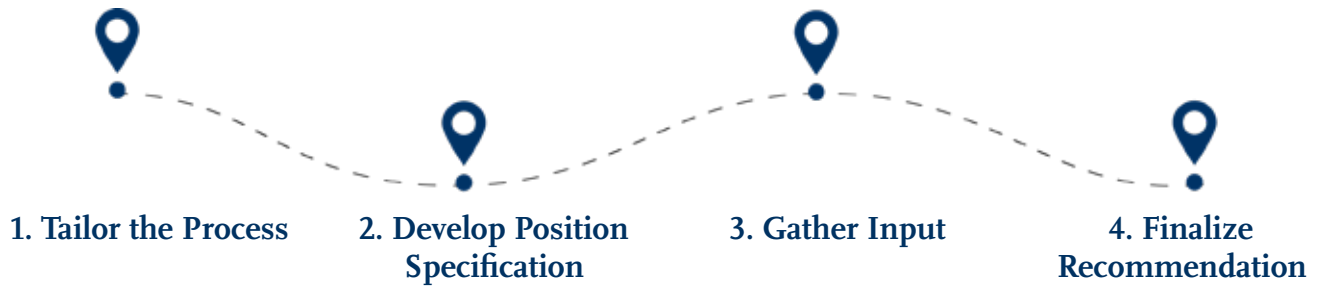
Step Three: Develop a thoughtful process for determining the next independent board leader

The third step is to identify the next independent board leader. In some cases, one director may be the clear candidate or identified in advance as part of board leadership succession planning. In our experience, few boards have proactively mapped this transition.

Selecting the independent board leader is more art than science, beginning with the development of a position specification. Too often, boards begin to debate “should it be Director X or Director Y” before aligning on the skills, experiences and attributes most needed in the next chair.

The following outlines our view of a process that leads to better outcomes, with the designated committee defining the needed qualities, talking with potential candidates, making a recommendation, and quietly socializing the recommendation with the CEO, the current board leader and the board.

Selecting an independent board leader



- 1** **The process to identify the next board leader must be tailored for the board and company.**
- » Create a thoughtful and respectful process that avoids damaging board dynamics, creating a contest (real or perceived) that may leave one or more directors feeling rejected by their peers and putting directors into a corner on the decision.
 - » Ensure each director, along with the CEO, is comfortable sharing their honest views.
 - » Recuse any directors interested in the board leader role from final deliberations and recommendations.

- 2** **The nominating and governance committee should develop a position specification outlining the responsibilities and key criteria for the board leader role, which should be shared with the full board for input and approval.**
- » Consider whether [CEO experience](#) is critical and how much board experience is needed.
 - » Consider the mix of demonstrated leadership skills, prior board leadership experience, interpersonal skills, industry knowledge, and investor and stakeholder credibility is needed in the next board leader.

- 3** **Each director, along with the sitting CEO and incoming CEO, should have an opportunity to provide input and share their views.**
- » A disinterested director (someone not interested in the board leader role) should schedule closed-door time with each director for their confidential thoughts on board leader candidates and their interest (or lack of) in the role.
 - » Aggregated feedback, with no attribution to individual directors, and director interest should be provided to the nominating and governance committee.

- 4** **The nominating and governance committee should evaluate each recommended candidate against the position specification, talk with each candidate and make a recommendation to the board for approval.**
- » The committee should give the CEO the opportunity to weigh in on the recommendation, although the final decision rests with the full board.
 - » As a courtesy, before sending the recommendation to the full board, the committee should share the recommendation with any interested director not selected.
 - » The committee may need to reconfigure leadership and membership of all board committees to ensure independent board chair is not a member or chair of any board committees.

Backgrounds of independent board leaders vary

More than half (53%) of S&P 500 independent chairs are active or retired CEOs, chairs, vice chairs, presidents or COOs. Investment managers and investors continue to be the next most common group, representing 13% of independent chairs. Ten active top executives are independent chairs, representing 5% of the total. Given the time commitment of an independent board leader role, especially in a time of crisis, it's not surprising that many board leaders are retired executives.

While solid professional skills and experiences are important for an independent chair, a trusted relationship with the CEO is critical. A weak relationship can affect the performance of the board, which can extend to the top team. Yet the relationship can't be so close that it undermines the board's independence, objectivity and ability to act on behalf of shareholders. It's a delicate balance to get right.

Our research found that [trust is the critical factor](#) driving an effective relationship between the chair and CEO. Chairs and CEOs build trust over time by being vulnerable, open and transparent about their expectations and respective challenges. The most effective chairs tend to draw on key soft skills to establish this trusting relationship, including:

- » High EQ, objective, empathetic and respectful, with the ability to consider the CEO's style and the board's culture and operate in a fair but firm manner
- » People leadership skills, with the ability to harness and focus the board's work and build consensus
- » Strong listening and communications skills, with the ability to effectively communicate between the board and management and diplomatically lead sometimes difficult conversations
- » Low ego, with the board leader avoiding creating the impression with other directors or with management that the leader is trying to run the show
- » Courage, with a willingness to diplomatically and effectively tackle difficult issues



Step Four: Assess

Assessment of the board's leadership structure and the performance of the independent board leader should be a routine part of the annual board evaluation. Given the importance of a healthy and constructive relationship between the CEO and the independent board leader, the CEO's candid input is particularly important.

Boards can be uncomfortable sharing director-specific feedback. Best practice? Periodically retain an independent expert to lead the annual board evaluation and facilitate peer feedback for all directors, including the independent board leader. Alternatively, an independent director — other than the independent board leader and usually the chair of the nominating/governance committee — should lead the review.

Conclusion

Given the importance of the independent board leadership to the board's governance and effectiveness, boards should ensure they are proactively and regularly evaluating their leadership structure and succession strategies.





About Spencer Stuart

Privately held since 1956, Spencer Stuart is a leading global advisory firm specializing in people, team and organizational performance — spanning more than 60 offices, over 30 countries and more than 50 practice specialties. Boards and executive leaders consistently turn to Spencer Stuart for senior-level executive search, board recruitment, board effectiveness, succession planning, executive assessment and development, culture change and performance acceleration for senior leadership teams. For more information on Spencer Stuart, please visit www.spencerstuart.com.

Authors

George Anderson (Boston)
Rebecca Thornton (New York)
Cathy Anterasian (Austin)
Seonaid Charlesworth (Vancouver)

