



Teeter-totter in Discretionary Disclosure:

Why Firms Should Extend Board Succession and Composition Reporting



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Dear reader,

the following article is based on a current dissertation project at the University of St. Gallen (HSG). The dissertation's primary emphasis is on board chair succession planning: competencies, requirements, stakeholder influence and perception, and (s)election and board composition reporting. Feedback on my initial thoughts is warmly welcomed. For any remarks, requests, or support, please feel free to get in touch: cornel.germann@unisg.ch.

Board succession reporting is like a teeter-totter – a long, flat board supported by a single pivot point. It requires two coordinating parties to keep the game going: as one end goes up, the other goes down. Yet, if one party jumps off, the other may fall off or – in the case of an organization – have to explain its action (ex-post). For this reason, adequate succession and board composition reporting parallels the soft surface teeter-totter playgrounds are equipped with.

An organization's willingness for confidence-building succession and board composition reporting is crucial.¹ The decisive factor when it comes to consciously supporting transparency in (voluntary) reporting is less a question of eloquence and rhetorical brilliance but rather one of inner attitude. Institutional investors, proxy advisors, the media, and NGOs are increasingly demanding legitimacy and information. One reason why share- and stakeholders are calling for succession reporting is the fact that, in most cases, there is but one single board nominee per vacancy up for AGM election, and shareholders are only left with the choice of voting for or against the one nominee. In that sense, simply revealing the name and the biographical history of the proposed candidate rises concerns to whether an intact strategic succession planning is in place.

¹ Werder, A. & Wieczorek, B. J. (2007): Anforderungen an Aufsichtsratsmitglieder und ihre Nominierung. *Der Betrieb*, 60(6), 297-303.

The lack of succession reporting also makes it difficult for external parties to comprehend why the proposed individual is supposed to be the *best fit* for the position. Consequently, boards are facing increasing pressure to implement succession reporting. Two examples: First, BlackRock requires boards to disclose their view on the mix of qualities and competencies needed to effectively oversee and guide the management with regard to the company's long-term strategy. Second, ISS's voting recommendations and Vanguard's investment decisions build upon their board's present and planned age, tenure, diversity, and leadership composition.

How do firms perceive succession and board composition reporting? To date, the majority of Swiss organizations has been skeptical about in-depth succession reporting. It seems that they are not prone to transparency and disclosure, and they reason against it with potential stock market manipulation threats or agency and disclosure costs such as proprietary costs, political costs, confidentiality costs, and litigation risk.² The low level of board succession and composition reporting probably stems from the lightly regulated Swiss governance environment (compared to other countries, e.g., SEC Form 20-F filing). Articles dealing with succession are rather generic and leave great discretion to a firm's disclosure policy. The effect is that succession reports (often part of the governance reporting section) only meet the minimum requirements – some put in a greater effort than others – without providing information on strategy, structure, or process. A lot of information remains superficial, is provided narratively, and generates few insights. Four practical examples:

- It might be beneficial to specify whether succession planning follows a particular (long-term) strategy:

«[...] the Nomination Committee is formed on an ad-hoc basis for the purpose of preparing the groundwork for electing new members to the Board of Directors and the Group Executive Board when needed [...]» (Swisscom annual report 2019)

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- It might be beneficial to specify how the process with its individual steps is organized:

«[...] the Board has a succession planning process in place to identify potential candidates for the Board at an early stage. With this process, we are well prepared [...]» (Credit Suisse annual report 2019)

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- It might be beneficial to specify what business and environmental factors influence board work:

«[...] the profile of individual appointments may vary from time to time. Such variations take account of the Board's evolving requirements in terms of experience and diversity [...]» (Richemont annual report 2019)

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- It might be beneficial to specify the current requirement for the board of directors:

«[...] the recruiting process for BoD and GEB members takes into account a broad spectrum of factors, such as skills, backgrounds, experience and expertise [...]» (UBS annual report 2019)

2 Ghio, A. & Verona, R. (2020): Voluntary Corporate Disclosure. In A. Ghio & R. Verona (Eds.), Contributions to management science. Evolution of corporate disclosure: Insights on traditional and modern corporate communication (pp. 55-100). Springer.

In this regard, the current reporting on board succession and board composition tends to be imprecise and is virtually identical to previous disclosure practices. So, the question is: *how to improve board succession and composition reporting?* The willingness for succession transparency and more specific descriptions (e.g., also by providing examples) is the starting point for a more profound and advantageous reporting practice where all parties benefit. Overall, this would support a «the enemy of my enemy is my friend» attitude.³ Just as much, providing more insights would also indicate that the board is willing to think critically and approach succession professionally. In more depth, concise succession and board composition reporting – beyond «boilerplate language» – is likely to yield two major benefits. Firstly, concise reporting facilitates communication between the firm and its share- and stakeholders. In that sense, external parties benefit from a higher level of information disclosure which helps them acquire more knowledge for their decision-making process. Secondly, it adds credibility to existing best governance practices. Empirical evidence shows that organizations eager to extend their governance and ESG scope are seen in a positive light and thus more likely to attract investors.⁴

The review of SMI 2019 annual reports showed that there is a need for improved reporting schemes. One «must have maps of the world to traverse».⁵ The article thus proposes a framework – or at least supporting guidance – providing initial thoughts that assist (and not dictate!) organizations in the way they can disclose board succession and composition planning:⁶

- What is the right planning horizon?
- How will the search be performed?
- How are the selection and the appointment organized?
- What are the necessary requirements in terms of skills, experience, and expertise?

Yet, to perform succession and board composition reporting in best practice manner, it is of utmost importance – besides the highlighted contents in the guidance framework – to keep disclosure fundamentals in mind:

- **Create necessity:** It is essential to stick to «the eyes of the beholder, i.e., the receiver and not the sender.»⁷ Organisations face a broad range of share- and stakeholders. However, it is crucial to define the primary share- and stakeholder base and clearly address them in the report (what to whom).
- **Retain adaptability and link actions to process:** Decisions made relate to business processes and environmental influences. Keep the reports flexible and link them to examples and actions. That will increase the quality and the understanding of the comments.
- **Use visualisation:** Lengthy texts make it difficult to capture key points. For example, visuals help to illustrate the process graphically and link areas, actions, decisions, and individuals with each other in a more concise manner.
- **Chose adequate channel(s):** Choose the channels and the content wisely and strategically. Keep time considerations (episodic vs. occasional and regular vs. irregular) in mind and adapt the quantity and quality to the chosen channel. Also, use qualified external advisors (e.g., auditor) to increase the trustworthiness.
- **Consistency, clarity, and comparability:** Before starting, define a clear and concise reporting strategy. In addition, benchmark what competitors in similar business/economic situations are reporting. Once decided, stay on the path and adjust your format and content continuously but in a well-considered manner. Be a first-mover: sooner or later, other boards will recognise the signs of the times and respond to higher stakeholder demands.

3 Campbell et al. (2012): Shareholder influence over director nomination via proxy access. Implications for agency conflict and stakeholder value. *Strategic Management Journal*, 33(12), 1431-1451.
 4 Bushee, B. J. & Noe, C. F. (2000): Corporate Disclosure Practices, Institutional Investors, and Stock Return Volatility. *Journal of Accounting Research*, 38, 171-202
 5 McCombs et al. (1995): Issues in the news and the public agenda. The agenda-setting tradition, in Glasser, T.L. and Salmon, C.T. (Eds), *Public Opinion and the Communication of Consent*, Guildford Press, New York, NY, pp. 281-300.
 6 Financial Reporting Council (FRC) (2016): Feedback Statement. UK Board Succession Planning.
 7 Nielsen, C. & Madsen, M. T. (2009): Discourses of transparency in the intellectual capital reporting debate. Moving from generic reporting models to management defined information. *Critical Perspectives on Accounting*, 20(7), 847-854.

Board Succession and Composition Reporting: Some Food for Thought

Policy, Performance, and Guidelines	Board Responsibility	<ul style="list-style-type: none"> Describe the board's / committee's / individuals' responsibilities and tasks List topics to be discussed in the board / committee (general titles) Identify the ultimate decision-making process and decision-making individuals (and provide reasons why the process is considered adequate and / or the individual is suitable for leading the process) Formulate policies on formal communication and information exchange
	Board Composition	<ul style="list-style-type: none"> Assess existing competencies, skills, and experience of each individual board member (incl. method / technique assessed) Go beyond biographies; provide more meaning (e.g., individual's contribution, emphasis on diversity) State the added value of the full board of directors as a group (e.g., board work, chemistry) Describe current business and environmental factors and show what competencies, skills, and experience are needed / must be developed to meet them
	Board Performance	<ul style="list-style-type: none"> Describe the performance assessment technique / method Report the individual's performance according to the assessed criteria State the board's development and learning process, incl. / excl. external consultancy Outline how strategy and board performance are linked to board succession planning

Planning, Process, and Procedures	Board Succession Strategy	<ul style="list-style-type: none"> Describe the strategy to be followed and strategic areas to be emphasized State the purpose and goal of succession planning at board, senior management, and upper management level Outline how the organization promotes talents / career paths (internal pipeline) Summarize how succession is integrated in the board's agenda (qualitative and quantitative criteria)
	Board Succession Process	<ul style="list-style-type: none"> Describe succession stages (pooling, identification, assessment, and evaluation) and outline how the process is organized List internal and external parties involved and their contribution attributable State how planned vs. emergent succession process unfolds and differs
	Board Succession Planning and Candidate Nomination	<ul style="list-style-type: none"> Prioritise the position and planning of new successors («open positions») Provide information on the nominated board and senior management members as well as substantial arguments for why the nominees' personality, skill set, experience, etc., qualifies them for the position («best fit», requirement profile vs. proposed candidate profile) Discuss the reasons for the change (e.g., diversity, culture, geography, experience)

To sum it up, rethinking board succession and composition reporting is a first step in the right direction. Organizations should get in the driver seat and proactively intensify their scheme: **launch tailored disclosure and iteratively drive the disclosure continuum towards successful value creation.** A teeter-totter reduplicates two swinging seats; it

describes (ex-post) an effect based on action. There is not one, but several ways to do so – also in succession. Each participant can choose the height, speed, and its counterpart. However, the game only works in a collaborative and cooperative manner, and not if there is only one party involved.