

ASX 200 Board Succession Planning Review

NOVEMBER 2021



A man in a blue shirt is smiling and looking towards the right. He is in a meeting with other people, some of whom are blurred in the background. The setting appears to be a modern office or conference room with large windows.

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Introduction

- This document, the Ashurst Board Advisory ASX 200 Board Succession Planning Review (November 2021), contains an analysis of ASX 200 Director (both Executive and Non-Executive) numbers and tenure, and follows the Review we conducted in 2020.
- The focus of our Review is on strategies for successful Non-Executive Director (**NED**) succession planning.
- This Review outlines the importance of proactive and ongoing Board Succession Planning to Board and Company performance, and highlights the key numbers and tenure limits of ASX 200 Board Directors.
- Ashurst Board Advisory assists its clients to establish a forward-looking approach to corporate governance, including Board Succession Planning. We work with our client Boards proactively and pragmatically, to address key challenges and opportunities, and to assist in driving a sustainable future for the benefit of all stakeholders.
- We believe that Board Succession Planning should be live and continuously evolving. It should be proactive against planned (and unplanned) future retirements, and involve a cycle of continual assessment, renewal and regeneration.

Joshua Smith

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Ashurst Consulting



SECRETS OF SUCCESS

What Your Board Should Know



PLANNING

All ASX 200 Boards should have and maintain an active Board Succession Plan.



SIZE

Board size and composition is ultimately a matter unique to each Company and Board. The average ASX 200 Board is comprised of 7.5 Directors, of which 6.3 are NEDs.



PERFORMANCE

Ongoing and active Board Succession Planning is critical to Board and Company performance. It plays a key role in assisting a Board to discharge its obligations to shareholders and stakeholders.



RENEWAL

The appointment of a NED to a Board should be the result of a rigorous and structured Board renewal process. That process should continuously assess the experience, skills, attributes, diversity and tenure necessary for a Board to govern effectively over the long term.



EVOLUTION

Board Succession Planning should be proactive – that is, live and continuously evolving. It is proactive against planned (and unplanned) future retirements, and involves a cycle of continual assessment, renewal and regeneration, as Company strategy, lifecycle and market conditions change over time.



APPRAISAL

Board Succession Planning is also inextricably linked to Board Performance, Review and Appraisal. Both processes should be “read” together and are key elements of good and proactive corporate governance (which should assist Board and Company performance over the longer term).



BALANCE

A balanced Board, possessing the right mix of skills and experience (including diversity as to gender, ethnicity, geography, generation etc), will help ensure diverse and broad thought and insights – and ultimately improved business judgment.



TENURE

NED tenure is an important factor which should be considered when assessing Board composition. Appropriate Board Succession Planning plays an important role in maintaining a balance between Board refresh and regeneration, and the retention of sound corporate memory.



INDEPENDENCE

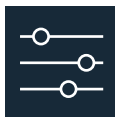
The *ASX Corporate Governance Council's Principles and Recommendations (4th ed)* references tenure as a matter to be considered in assessing NED independence. It is noted that, “the mere fact that a Director has served on a Board for a substantial period does not mean that the Director has become too close to management or a substantial holder to be considered independent. However, the Board should regularly assess whether that might be the case for any Director who has served in that position for more than 10 years.”





POLICY

APRA's *Prudential Standard CPS 510 Governance* which applies to "APRA-regulated institution[s] in the deposit-taking, general insurance, life insurance and private health insurance industries," provides that, "The Board of a locally incorporated APRA-regulated institution must have in place a formal policy on Board renewal. This policy must provide details of how the Board intends to renew itself, in order to ensure it remains open to new ideas and independent thinking, while retaining adequate expertise. The policy must give consideration to whether Directors have served on the Board for a period that could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the institution. The policy must include the process for appointing and removing Directors, including the factors that will determine when an existing Director will be re-appointed."



PARAMETERS

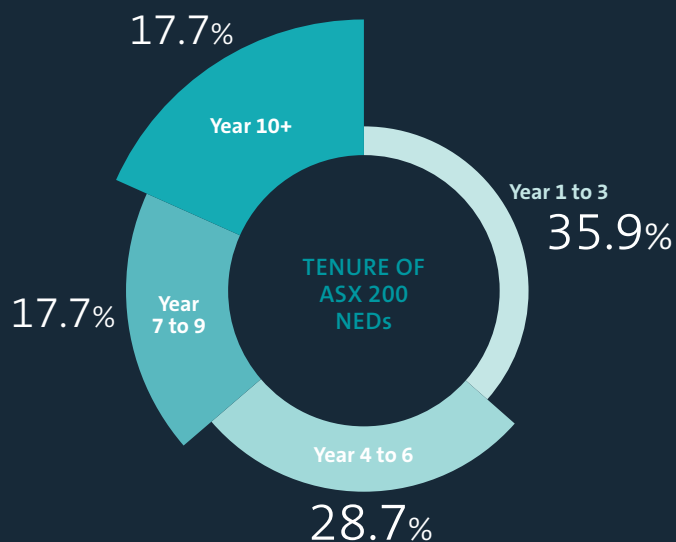
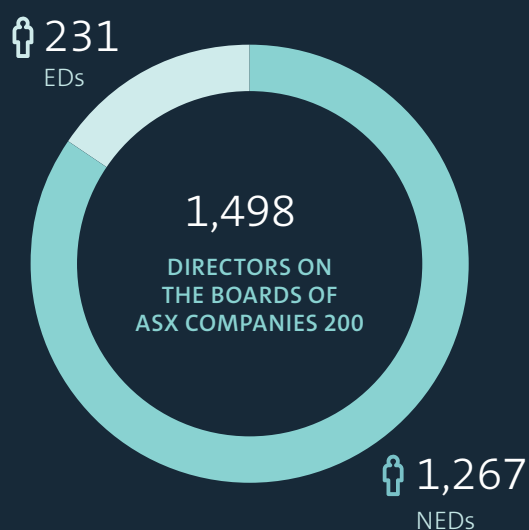
Increasingly, leading ASX listed Boards are establishing parameters around Non-Executive Director tenure. Where such parameters exist, a 9 or 10 year limit for Non-Executive Directors, and 12 year limit for the Chairman, are increasingly common, while retaining the discretion to extend tenure in unusual / special circumstances.



TERM

Evolving notions of good corporate governance suggest that a 9 year tenure (3 terms of 3 years) for a Non-Executive Director is optimal.

ASX 200 Director Tenure Highlights



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OVERVIEW

On the Boards of ASX 200 Companies there are:

- 1,498 Directors (1,525 in 2020). **19 fewer board “seats”, a 1.4% difference** (when alternate Directors are removed).
- 1,267 Non-Executive Directors (**NEDs**) (84.6% of total) (1,292 – 84.7% in 2020).
- 231 Executive Directors (**EDs**) (15.4% of total) (233 – 15.3% in 2020).

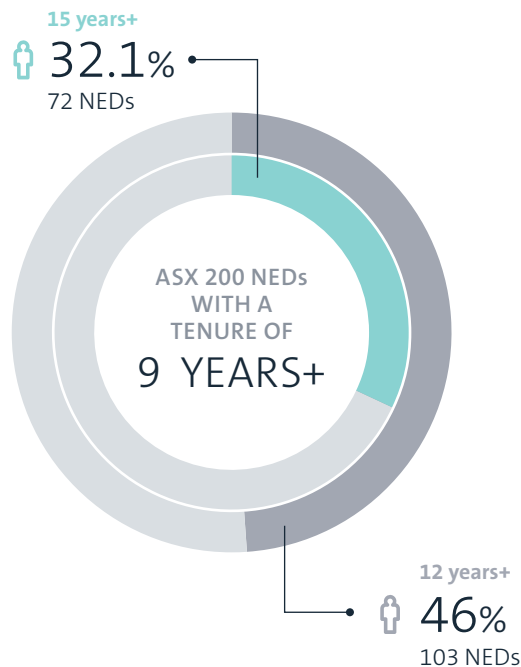
ASX 200 Boards have an average of:

- 7.5 Directors per Board (7.6 in 2020).
- 6.3 Non-Executive Directors (6.5 in 2020).
- 1.2 Executive Directors (1.1 in 2020).

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NED TENURE HIGHLIGHTS FOR ASX 200 BOARDS

- 35.9 % in year 1 to 3 of tenure (36.5% in 2020).
- 28.7% in year 4 to 6 of tenure (27.2% in 2020).
- 17.7% in year 7 to 9 of tenure (18.0% in 2020)
- 17.7% in year 10+ of tenure (18.3% in 2020).



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PREVALENCE OF NED TENURE BEYOND 9 YEARS

- 121 ASX 200 companies have one or more NEDs with a tenure greater than 9 years.
- 8.1% of NEDs have a tenure of greater than 12 years (9.5% in 2020).
- 46% (103 NEDs) of those who have served more than 9 years, have a tenure of greater than 12 years (50%, or 118 NEDs, in 2020).
- 32.1% (72 NEDs) of those who have served more than 9 years have a tenure greater than 15 years (31.8%, or 75 NEDs in 2020).

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OTHER GENERAL OBSERVATIONS

- 6 Boards appointed all of their Non-Executive Directors in the past 3 years (4 of these listed between 2018 and 2021; 1 was the result of major acquisition, and the formation of a combined entity, the other followed a board refresh).
- 2 ASX 200 Boards appointed all but one of their Non-Executive Directors in the past 3 years.
- 1 ASX 200 Board has all but one of their Non-Executive Directors in year 7 to 9 of tenure.

*Refers to Ashurst Board Advisory's ASX 200 Board Succession Planning Review (2020) data.



The Role of Tenure in Best Practice Board Succession Planning

Adopting a “3 x 3 year” tenure approach (that is, 3 consecutive terms of 3 years), roughly one third (33%) of the Non-Executive Director population should sit within each of the 3 tenure brackets (that is, year 1 to 3, year 4 to 6, and year 7 to 9).

Our Review indicates that there should be a more even spread across the tenure groupings than is presently the case (we reached the same conclusion in 2020). Proactive Board Succession Planning has a key role to play here.

Note that while Non-Executive Directors may begin to lose their impact and potentially, their independence, after having served 9 years on a Board, this is not always the case and accordingly there is no “hard and fast” rule. Clearly, a Board must have regard to various factors when determining its position in relation to Non-Executive Director tenure / re-election beyond 9 years (noting that re-election would then be for a further 3 years).

Ashurst Board Advisory Practice

Ashurst’s Board Advisory Practice is focused on enhancing Board and Company performance. We help our clients solve their most complex high-level governance, leadership and people issues. We focus on assisting our clients to enhance their organisational and Board performance, to drive a sustainable future for the benefit of all stakeholders.

We operate in the boardrooms of Australia’s leading companies, and with clients across the Asia Pacific region.

We are trusted advisors on:

- Board & CEO Succession Planning, Search and Appointments
- Board Composition and Structure
- Board & Company Performance.

Our key clients include many of Australasia’s most prominent Chairs, Non-Executive Directors and Chief Executive Officers.

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