

NOMINATION & GOVERNANCE COMMITTEE
PRIORITIES FOR 2025:

Elevating Governance Amid a Shifting Landscape



The nomination and governance (N&G) committee is the backbone of the board. With responsibilities shaped by economic, industry, geopolitical, and other market influences, N&G committees are tasked with capturing elements that lead to effective leadership inside and outside the boardroom, fostering stakeholder confidence. BDO's Center for Corporate Governance has identified the top priorities that N&G committees should focus on in 2025, helping to ensure that the boardroom and organization operate effectively and efficiently in a continually evolving landscape.

EFFECTIVE LEADERSHIP: DETERMINING WHETHER THE CEO IS THE RIGHT FIT

The multifaceted role of the chief executive officer (CEO) requires balancing strategic vision, operational oversight, and strong leadership to drive the company forward. These elements are all critical components of transformation, which should be top-of-the-list tasks for the CEO. It falls to the board to ensure that the CEO not only fulfills those obligations, but that they are forward thinking in succession planning should change become necessary. In many companies, the N&G committee often takes the lead on succession planning. The importance of the topic is evidenced by 50% of N&G chairs indicating CEO succession planning as a top priority in 2024, according to [Spencer Stuart](#).

Understanding whether the current CEO remains fit for the organization's purpose is a crucial element in the sustainability of a business. This involves continually evaluating the CEO's skills in relation to the organization's needs, including whether they align with corporate strategy, culture, and goals. It is also becoming increasingly important for the board to focus more broadly on others in the C-suite. Twenty-eight percent of public company directors in BDO's [2024 Fall Board Survey](#) indicated that succession planning for management will require significant time in 2025.

To be well prepared for scenarios that may require a change in senior leadership, N&G committees should view the succession planning process proactively by seeking to timely address several important questions:

- ▶ Does the organization have a pipeline of potential CEO candidates?
- ▶ What are the key qualifications required to meet the organization's needs?
- ▶ How is the organization identifying and developing future leaders, including other critical C-suite positions?
- ▶ Should the committee look outside the organization for candidates or candidates?
- ▶ Would leveraging a third-party firm aid in the candidate search?
- ▶ If necessary, would a member of the board be able to serve in an acting CEO or other C-suite role?
- ▶ Does the organization need to engage an unbiased third party to provide perspective on the succession strategy?



CREATING A CULTURE OF STAKEHOLDER TRUST AND CONFIDENCE

Having the right CEO and management team in place and proactive succession planning can help inspire stakeholder confidence, but there are other critical factors that have an effect as well. Among those are whether an organization should take a stand on current events and social issues. A [Bentley-Gallup Business in Society Survey](#) found that only 38% of Americans said businesses should take a public position regarding current events, down from 41% in 2023 and 48% in 2022.

However, broadly speaking, the report also found that there are some issues that many Americans are supportive about companies speaking on, such as climate change (54%), mental health (53%), and diversity, equity, and inclusion (53%). Conversely, issues like abortion (20%), political candidates (17%), and religion (13%) are topics organizations should avoid taking a stance on, with support in each of these categories falling 2 percentage points from the prior year.

When a company does decide to speak publicly about a potentially sensitive topic, it is imperative that it has an established communications strategy in place. Communication is essential for building trust with stakeholders, but the messages an organization crafts must resonate with its intended recipients and be authentic and relevant to the purpose, policies, long-term strategy and sustainability of the organization. Otherwise, the company runs the risk of appearing opportunistic or out of touch.

As the N&G committee is generally responsible for overall governance policies, it can play an effective oversight role in ensuring controls around external communication policies exist and are functioning properly.

When crafting a communication strategy, the N&G committee should consider several key areas:

- ▶ How the organization governs the alignment between its public positions with its stated mission and values;
- ▶ The relevance and influence of geopolitical and economic pressures, particularly when current events and social issues may affect key stakeholders differently;
- ▶ Ensuring that how governance practices are explained in public-facing communications, like proxy statements and company websites, agree with how the company leadership chooses to further communicate the company's stand on current events and social issues; and
- ▶ Whether communications will be meaningful, transparent, and build confidence within stakeholders.

For many organizations, the company-specific approach to establishing and overseeing an effective sustainability strategy has become a high priority.

This has required boards to take a much more active governance role as many Environmental, Social, and Governance (ESG) issues are significant to both the business and to the company's stakeholders. According to the Center for Audit Quality, 98% of S&P 500 companies currently report one or more environmental, social, and governance metrics. Many companies initially assigned ESG responsibilities to the N&G committee, but as companies of all sizes evolve their sustainability priorities, reporting, and control needs, boards may need to establish more specific roles and responsibilities among the various standing committees or potential new committees of the board. This also requires further communication to shareholders and other stakeholders to drive trust and confidence that related ESG risks and opportunities are being appropriately governed. For example, charters and proxy disclosures may need to be redesigned to reflect the responsibility delegated to the compensation and human capital committee for creating ESG accountability metrics via compensation awards necessarily be delegated to the compensation committee, while simultaneously reflecting responsibility for ensuring appropriate controls over accounting and disclosure mechanisms within the audit committee's purview.

BOARD OPTIMIZATION: RESPONDING TO SHAREHOLDER ACTIVISM

A shareholders also remain an important consideration for boards, with 550 U.S. companies seeing some form of activist demands in 2023, according to [Harvard Business Review](#). That represents an 8% increase from 2022 and almost 70% more (326) than a decade prior. Addressing challenges from investors requires a proactive approach from organizations to look for areas of risk and opportunities for improvement — including N&G committees evaluating the composition of the board and determining whether changes may be required.

As part of proactive action, N&G committees should seize the opportunity to convey a compelling explanation of the how and why behind director selection. The proxy statement is a mechanism for the board to share the organization's perspectives. More than a compliance piece, proxy statements provide an opportunity for direct communication with shareholders and a means to record board governance actions, detail the value of the current board makeup, and explain how the skill sets of various or individual directors contribute to the organization's overall goals and objectives.

Boards should provide comprehensive disclosures to show that they possess a diverse range of viewpoints and experience to execute on their governance oversight policies and procedures. They should also consider including a skills matrix to highlight each director's unique skills, industry experience, and risk oversight capabilities as further evidence of the board's alignment with company goals.

There are still times when a proactive approach alone does not placate activist shareholders, and boards must develop a strategy to identify vulnerabilities from which to defend themselves and communicate plans to counter challenges to their governance competency. To engage with stakeholders in this way, boards should assess how and when they address investor relations issues and consider bringing in outside counsel for an independent perspective.

If an activist situation arises, the company's reaction is crucial. A poor response can exacerbate the situation by suggesting that the management and board are out of touch with shareholder concerns. Although the activist's attention might be unwelcome, it does not imply their issues lack validity. If managed well, engaging with a shareholder activist can strengthen the company. The board can learn from this and take the time to reach out to other shareholders and determine whether the activist's issues warrant change. The last thing the board wants is a proxy contest — these are not only time consuming, but also costly and potentially lead to increased public scrutiny and embarrassment.

According to [Diligent Market Intelligence's Proxy Season Review 2024](#) report, in the first half of 2024, proxy contests cost companies an average of \$4.4 million and activists \$1.7 million, compared to \$3.1 million and \$660,000 in 2020, respectively. Diligent's report also cites that 449 U.S. companies were subject to activist demands in the first half of 2024, a 9% increase compared to the 412 in the first half of 2023 and an 11.4% increase compared to the 403 in the first half of 2022. As activism threats increase, boards need to ensure that they are prepared.



ONBOARDING, DEVELOPING, AND EDUCATING DIRECTORS

Aligning the board's composition to company goals is an ongoing initiative. Organizations should develop a thorough onboarding process that helps directors orient themselves to the company while simultaneously allowing them to quickly become contributing directors. Additionally, companies must foster a culture of continual director education and development, especially in areas that pertain to existing and emerging significant risks to and opportunities for the business.

According to a [2024 Spencer Stuart](#) report, N&G chairs who highlighted the importance of onboarding and continued learning said that industry trends (75%), technological and digital issues (73%), and cybersecurity (70%) are among the highest educational priorities for board members to focus on.

[BDO's 2024 Board Survey](#) found that directors indicated that they spend an average of 42 hours annually on independent education and research. To facilitate a proactive learning environment, the board should be empowered to access forums to assist directors with deepening their understanding of industry-specific topics that include but are not limited to:

- ▶ Compliance and regulatory changes
- ▶ Organizational strategy and the competitive landscape
- ▶ Governance oversight frameworks
- ▶ Risk management, including cybersecurity and implementation of emerging technology
- ▶ Financial oversight

For more nuanced, technical areas of knowledge, companies may also want to consider hosting dedicated presentations that go into more detail to help ensure that directors have the necessary resources to understand issues critical to the organization's strategy. There are other practical measures companies can take to aid in the onboarding and continuing education processes.

- ▶ **Solid foundation:** Before getting into the governance aspects, onboarding new directors should start with a company overview, details about culture, and a strengths, weaknesses, opportunities, and threats (SWOT) analysis to build a foundation to work from.
- ▶ **Mentor programs:** These allow new directors to be paired with an existing board member who can act as a resource while offering insights into the organization and focus areas.
- ▶ **Bespoke education:** Depending on a director's skill set, experience, and specific circumstances, boards can tailor educational resources toward each director in a way that targets areas most relevant to their continued development.

These steps help to create a structure to aid new directors in getting started on the right foot while creating a logical path of progression.



ENSURING A FUNCTIONAL BOARD ENVIRONMENT

Having a strong governance framework in place fosters a productive environment for the board to operate. The N&G committee's oversight of how the board and committees are constructed and how responsibilities are assigned, particularly in a rapidly evolving business environment, requires ongoing monitoring of how the board is functioning.

There are several questions that can help to determine if the existing board composition and structure can support the needs of the organization:

- ▶ Do current board members possess the right skills and qualifications to execute the organization's strategy and oversight of risk?
- ▶ Are board committees properly structured in a way that allows them to operate effectively and efficiently?
- ▶ Are committee responsibilities appropriately allocated so as not to overload any one particular committee?
- ▶ Are corporate governance documents, including board and committee charters, current with respect to oversight roles and responsibilities?
- ▶ Does the board contain and encourage the necessary diversity in thought and experience to provide comprehensive perspectives on the topics it must address?
- ▶ Is the board accurately assessing and evaluating the performance of individual directors, committees, and the full board?

A 2023 report from [The Conference Board](#) showed that diversity in boardrooms remained largely unchanged year over year, with the number of female directors only increasing a single percentage point (31% in 2022 to 32% in 2023), and racially/ethnically diverse board members also staying almost the same (24% in 2022 to 25% in 2023). Diversity in the boardroom is evolving, but at a slower pace than in previous years and may be beginning to plateau.

A diverse board can offer a range of viewpoints, providing valuable insights from the varying perspectives of different board members. But it is also important for N&G committees to understand the culture of the board and interplay among the directors. A healthy board is characterized by respectful partnerships, earned trust, and effective communication. Problems such as domineering and ineffective leadership can undermine the board's objectives and escalate into larger issues if left unchecked.

The board and committee chairs hold critical roles in addressing these issues while facilitating productive discussions to maintain communication between the board and with various stakeholder groups. To evaluate the board's culture and communication, there are several areas N&G committees should be monitoring:

- ▶ Is there a respectful partnership between the C-suite and board?
- ▶ Is there trust and respect among board members?
- ▶ How does the board address negative behavior — either between management and the board or among board members — to mitigate oversight ineffectiveness?
- ▶ Are the board and committee chairs providing leadership, such as fostering productive discussions, enabling all directors to have a voice, and communicating with different stakeholders effectively to inform key decisions?



PREPARING FOR SUCCESSION PLANNING, BOARD REFRESHMENT, AND RECRUITMENT

When the answers to the previous questions and other circumstances indicate that the board needs to change, the N&G committee must be prepared to act. [A 2024 report](#) found 49% of board member respondents indicate at least one fellow board member should be replaced, and 25% indicated two or more directors should be.

[BDO 2024 Board Survey](#) data from Q4 found that the most in-demand skill sets and experiences being sought by boards as they plan for 2025 include technology implementation (31%), industry specialization (31%), corporate strategy (30%), audit/finance (27%), cybersecurity (27%) and transactions/M&A (25%).

N&G committees should carefully evaluate their existing policies and procedures to identify potential opportunities and areas of improvement. Some important questions include:

- ▶ How does the organization attract qualified directors?
- ▶ Are succession planning and refreshment policies in need of an update?
- ▶ Are renomination policies of incumbent directors based on the boardroom's need and the individual's performance?
- ▶ What is the N&G committee's evaluation process for directors, committees, and the full board?
- ▶ Is the committee transparent in its board evaluations to the organization's directors and stakeholders?

Good practices in evaluating board performance leverage tools such as: individual evaluations; questionnaires; interviews by an independent chair, lead director, or third party; board matrices; peer assessments and 360 reviews; and KPIs. Whether such activities are conducted solely by the board or include independent third parties, these evaluations should establish clear objectives, seek to gather candid information, and require action plans and accountability for identified areas of improvement. It is the role of the N&G committee to establish a process to ensure that the board is not only performing well but is transforming along with the needs of the business. In various settings where BDO has engaged boards in their evaluation processes, many report staggering certain activities, such as engaging a third-party evaluator over a three-year cycle and considering whether any specific areas of board performance may require a deeper dive.

MOVING FORWARD WITH A STRONG BOARD

The N&G committee continues to play a vital role in ensuring boards maintain effective leadership and governance practices. By regularly examining the needs of the CEO, management and board members, the N&G committees can align governance policies, procedures, roles, and responsibilities, along with directors' skill sets and experience to help meet the organization's strategic goals. They can further create an environment of open, effective communication with key stakeholders to tell the board's story and proactively address risk and opportunities.

Contact Us

CONTACT US

AMY ROJIK

National Managing Principal - Corporate Governance
617-239-7005 / arojik@bdo.com

LEE SENTNOR

Professional Practice Director
617-239-4142 / lsentnor@bdo.com

RACHEL MORAN

Professional Practice Senior Manager
617-456-2536 / rmoran@bdo.com

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