

Board Effectiveness Insights

Chapter 8 / Version 1.0

August 2006

CLIENTS

The following is a partial list of the organizations served by BEP's managing partners, as consultants or executive leaders, prior to or since forming BEP in 2002

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Bank of America
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Citigroup
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Corning
Covisint
EFJ
Genzyme
Greenwood Publishing Group
IBM
Johnson & Johnson
JP Morgan Chase
Kauffman Foundation
KeySpan
Kodak
Lenovo
LexisNexis
Loehmann's
Lucent
Marsh & McLennan
Menasha
Mykrolis
Pfizer
Reed Elsevier
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ROLE OF THE BOARD IN NEW CEO SUCCESS

Hiring and firing the CEO are commonly considered among the most important responsibilities of the board of directors. Board Effectiveness Partners (BEP) also believes that the board's responsibility for ensuring the success of new CEOs deserves elevated attention and focus.

Too often, we see boards sit back after selecting a new CEO, considering their job done. We believe this is the wrong approach. It is a disservice to stakeholders, as well as to the new CEO, to step back, hope for the best, and 12 months later discover that the new executive is floundering, unable to meet the goals the board expected.

Instead, we recommend that a small group of directors be charged with ensuring both immediate and long term success through mentoring, collaborating on priorities and success metrics, and working as allies with the new CEO.

For this approach to work, there first must be "bench strength" among a board's directors to support CEO selection and mentoring responsibilities. Selecting and mentoring a new CEO require a time commitment and a skill set that must be considered when adding new directors to a board.

We have identified two distinct phases for ensuring new CEO success:

- Defining needs and selecting for success
- Mentoring and measuring success



- In-depth review of the company
- Candidate's white paper

- Refine the roadmap and timeline
- Mentor and measure

In Chapter 6 of *Board Effectiveness Insights*, "Selecting CEOs," we explored our comprehensive methodology for a selection process that carefully links the company's future strategy and growth challenges to the athletic ability and career aspirations of the CEO candidate.

In this chapter, we again focus on the board's role in developing the selection criteria. In addition, we explore what we believe should be the board's responsibilities after the CEO is selected.



We would like to acknowledge contributions to this chapter by Richard M. Clarke of CE Partners. Dick has held CEO, chairman, and director positions in a number of companies. These have included serving as CEO of nash_elmo industries, chairman of Akzo America Inc., president and CEO of Wickes Industrial Group, chairman and senior executive vice president of Hoechst Celanese Corporation, and president and CEO of Celanese Canada Inc.

Dick believes strongly that boards must do a better job selecting, mentoring, and measuring CEOs. His recommendations inspired and informed this chapter of *Board Effectiveness Insights*.

1. Defining needs and selecting for success

In-depth review of the company

Directors too often approach the CEO succession decision-making process by submitting a list of Type A leadership qualities to a headhunter, or by routinely rubber-stamping an internal candidate recommended by the outgoing CEO.

Instead, the board should define and prioritize the major operational and financial issues – both strategic and tactical – facing the company now and for the next three years. Our recommendations for a methodology for this review were described in depth in *Insights*' Chapter 6. Operating metrics and stock performance over the past five years, company resources, and growth goals and strategies are examples of areas for review.

Within the context of this analysis, the selection committee must clearly define the key reasons the incumbent CEO is being replaced, and the specific challenges and goals the board wants the new CEO to address in the short term (i.e., the first 1-6 months), and within 12, 18, and 24 months.

A strategy-based methodology for defining required CEO competencies and success goals is valuable, not only in better defining the desired CEO profile, but also in developing a board consensus on the critical future direction for the enterprise.

Only at the conclusion of this in-depth review can an appropriate executive profile and job description be developed to guide the search for the best match of candidate competencies with the company's strategic opportunities and challenges.

Candidate's white paper

As the search reaches the point of a short list of one to three candidates, the search committee should review with the candidates the findings of the comprehensive review and the detailed vision of what will be expected of the new CEO.

Discussions should be candid and wide-ranging. Too often we have seen new CEOs blindsided by challenges or expectations that were not made clear to them during the selection process, resulting in a slow, tension-filled transition or a short tenure.

Using this information, each candidate should submit a white paper detailing his or her concepts for achieving the goals and addressing the challenges that the board defined during its in-depth review.

The white paper, and subsequent interviews, should focus on immediate and longer term direction and actions, including plans for building the senior leadership team, analysis and understanding of global and industry opportunities and challenges, and plans for mitigating resource challenges.

In addition, candidates should also be asked to submit a self-evaluation of their competencies, accomplishments, personal goals for the future, and lessons learned from past successful and less-than-successful initiatives. Through this process, each candidate's strengths and weaknesses in the areas important to the company's future can be assessed. In addition, the candidates will gain a deeper understanding of the company and the board's expectations for the CEO's performance.



It is important to recognize that the CEO is “in charge,” and that the directors serve as advisors and partners in success.

We recommend for additional reading our sister firm’s publication, *Strategy Implementation Insights*, Chapter 14, “New CEO Success... From Day One,” available on www.implementstrategy.com.

We look forward to sharing our lessons learned in more detail and welcome your suggestions, thoughts, agreement, or disagreement. Please contact Sharon Carrigan, *Insights* Editor and Vice President, Communications, at 203.801.5002 or sec@bepartners.com.

A collaborative interview process can build mutual understanding and agreement between the board and the new CEO on a roadmap and action timeline, with milestones and metrics for success. This establishes a framework of communication and mentoring between the board and the CEO that continues through the transition phase and into the long term.

2. Mentoring and measuring success

After the selection is made, a small team of directors, including the lead director or a non-executive chairman, should continue to work closely with the new CEO to mentor and monitor success. The timeline, milestones, and metrics developed during the selection phase serve as tools for ongoing collaboration and support.

Refine the roadmap and timeline

During the first few weeks on the job, the new CEO should capitalize on the opportunity to play the role of listener and student, to discover perceptions, understand the culture, and inventory resources and opportunities.

Face-to-face meetings, both individually and in groups, with a broad cross-section of key global stakeholders will enable the new CEO to test his or her perception of the enterprise’s strengths, weaknesses, and options for action.

Directors serving as the CEO’s mentors should also attend selected stakeholder sessions. Based on what is learned during the study period, the directors and new CEO may need to refine priorities, milestones, and expectations for success.

Mentor and measure

In today’s fast-paced and complex business environment, it is likely that many things may not go as planned. Some things may actually go better, some may never get off the ground, and unexpected opportunities and challenges are likely to suddenly develop.

The directors responsible for mentoring and measuring the new CEO’s success will need to meet regularly with the CEO during the transition phase. Their role is to assist in recognizing challenges and opportunities, while the CEO’s role is to define and execute solutions.

Through an active communication and mentoring process, directors can identify early on if the new CEO is succeeding or floundering, and take steps to mitigate problems and risks. If directors recognize a talent gap, outside consultants can be recommended to provide interim support.

Summary

A key role for the board is to identify competencies that will ensure CEO and company success, and to quickly identify and recruit the CEO able to perform the job required. Stakeholders can be better served by boards that focus more time on succession planning, mentoring, and measuring CEO success.

July 2006
Role of the Board

FOCUS

BEP reviews board structure, membership, processes, and procedures, and recommends changes to enhance effectiveness. BEP also evaluates CEO succession plans and candidates, and analyzes company performance against strategic goals.

INSIGHTS

We publish *Board Effectiveness Insights* periodically to encourage dialogue on strengthening director and board effectiveness.

Our readers are encouraged to pass this *Insights* chapter along to others, or to contact us for additional copies in printed or electronic form.

We welcome your suggestions, thoughts, agreement, or disagreement. Please visit www.bepartners.com for other chapters of *Board Effectiveness Insights*, as well as the sites for our sister firms: www.implementstrategy.com and www.ciogroup.net.

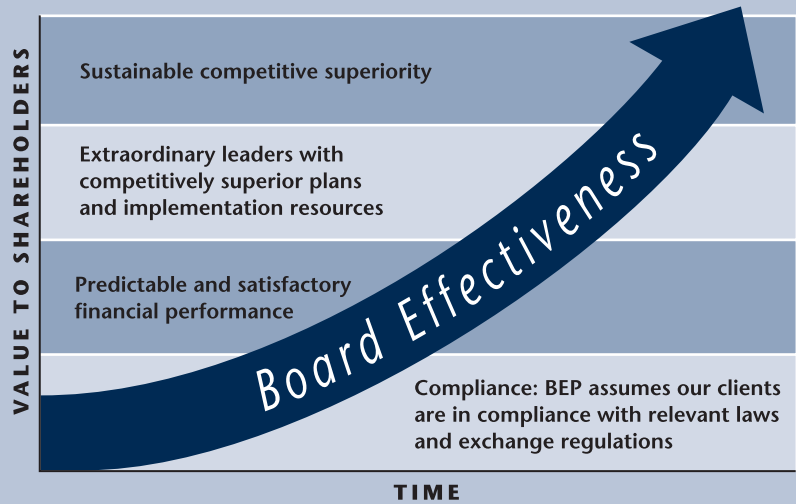
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Our Firm

Board Effectiveness Partners (BEP) collaborates with directors and CEOs to objectively analyze and improve the effectiveness of directors and their boards.



Managing Partners

Each of BEP’s managing partners has over 20 years of experience as a CEO, a board or corporate leader, or a consultant. With career credentials that range from manufacturing to financial services, and skills ranging from strategy design to change implementation, BEP’s managing partners provide the breadth and depth of professional experience essential to strengthening director and board effectiveness.

KEVIN ENGLISH has devoted his career to leading business units, companies, and boards, and has improved corporate performance as a CEO and board chairman.

JOHN MCCREIGHT has dedicated over 35 years to consulting and partnering with CEOs, senior leaders, and directors, and investors defining and implementing large-scale strategic change.

MARK SCHNEIDERMAN is a senior-level human resources professional who has held corporate leadership roles and has partnered with senior leadership and boards as a consultant, to facilitate strategy implementation and change management.

Alliance Partners

BEP nurtures relationships with over 100 alliance partners worldwide. They exemplify preeminence in their fields and complement our core competencies. Our alliance partners strengthen our capacity to improve director and board effectiveness.

As an example, BEP’s understanding of developments in Europe and the United Kingdom and our ability to partner with clients worldwide are enhanced by our relationship with London-based colleagues Patrick Haighton, Andrew Leung, and Leslie Dighton, the founder of the Chairman’s Club and CRA, a global consultancy.

Research & Operations Center (ROC)

Our ROC professionals are linked globally to our clients, alliance partners, industry experts, and the academic community. We focus daily on monitoring director and board effectiveness facts, opinions, successes, disappointments, lessons learned, and emerging best practices.