

Board Effectiveness Insights

Chapter 6 / Version 1.0

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.

American Express
American International Group
Aon
AT&T
Bank of America
Boeing
Bristol-Myers Squibb
Capgemini
Ciena
Citigroup
Continental Grain
Corning
Covisint
EFJ
Genzyme
Greenwood Publishing Group
IBM
Johnson & Johnson
JP Morgan Chase
Kauffman Foundation
KeySpan
Kodak
Lenovo
LexisNexis
Lifetime Television
Loehmann's
Lucent
Marsh & McLennan
Menasha
Mykrolis
Pfizer
Reed Elsevier
SAIC
Stanley
The New York Times
TheStreet.com
Timex
United Technologies
Universal Studios
Varian Semiconductor
Verizon
Wharton
Xerox
Yankelovich

SELECTING CEOs

Board Effectiveness Partners (BEP) believes board members have the responsibility, the opportunity, and the tools to immediately improve their effectiveness in selecting CEOs.

Directors too often approach the CEO succession decision-making process as an HR issue, rather than from an initial focus on corporate strategy. In our view, the CEO selection process must carefully link the company's future strategy and growth challenges to the athletic ability and career aspirations of the new CEO. Otherwise, the result is a short tenure due to competence and aspiration gaps that are impossible to bridge.

BEP suggests that directors consider a methodology we have found to be effective for the CEO selection process. Although initially developed for assessing internal candidates, the four phases can be tailored to evaluate external candidates as well.

1. *In-depth assessment of the company:*

Conduct an in-depth assessment of company resources; the vision for future growth, goals, and strategies; and implications for leadership competencies.

2. *Stakeholder interviews and collaboration:*

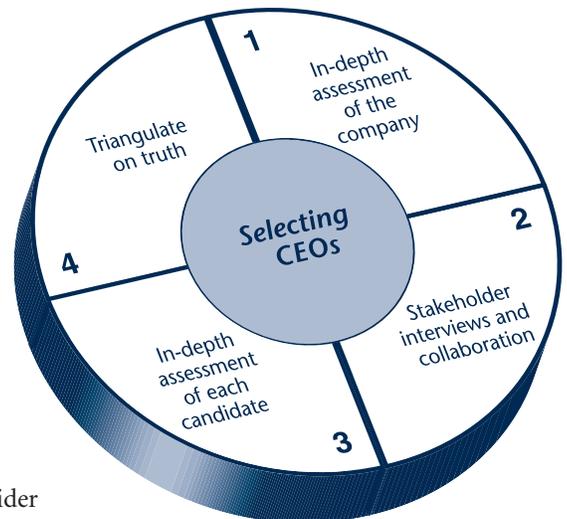
Interview and collaborate with directors, senior leaders, direct reports, and other key stakeholders to examine the leadership competencies they consider important for the company's future, and their assessments of the strengths of the candidates.

3. *In-depth assessment of each candidate:*

Complete in-depth assessments of each candidate's competencies, vision for the company's future, and planned timeline and milestones for change, and observe interactions with colleagues.

4. *Triangulate on truth:*

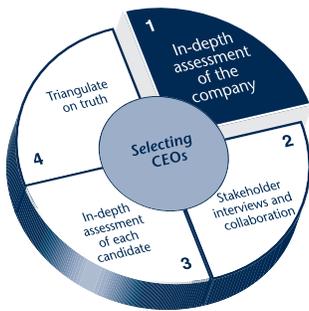
Assess wide-ranging perspectives through a process of qualitative and quantitative analysis.



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We are pleased that a portion of this article was excerpted for inclusion in NACD's *Boardroom Briefing: CEO Succession Planning*, Spring 2005.



Two of our recent engagements serve as examples. Although presented with excellent candidates, whose qualifications had been assessed through interviews and HR testing (Myers-Briggs and a 360° review), the directors had reservations about the criteria for selection.

In these engagements, directors had not focused on succession planning and lacked a workable decision-making process. They lacked agreement on their company's growth strategies and future challenges, and so they could not agree on the related leadership competencies required.

It was clear that these companies, and directors, were facing significant risks in selecting the right CEO for future growth and change. The situations warranted not only immediate attention to the CEO appointment decision but major changes to director focus, and board procedures and operations.

These situations are not unlike circumstances directors in other companies are facing. We hope that our processes and experiences described on the following pages can provide useful insights for directors responsible for selecting CEOs.

1. In-depth assessment of the company and implications for leadership competencies

At the outset of any engagement, BEP conducts an independent review of important company metrics. This assessment focuses on:

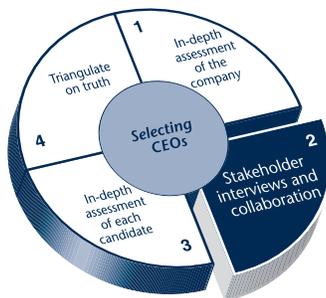
- stock performance and credit rating over the past five years, including comparisons with company plans, key indexes, and the company's top four or five competitors;
- operating metrics over the past five years, including revenue and net income, margins, employees, revenue per employee, and net income per employee;
- historical performance metrics for key business units and global operations for revenue, income, sales, and market share; and
- historical capacity to define and implement large-scale change.

A broad range of independent research sources is used, including SEC filings, analyst reports, and global media research. We observe a board meeting and conduct internal interviews with senior executives and directors. We also review internal resources, such as board briefings, strategic vision documents, business plans, organization charts, and sales and marketing material.

BEP also interviews selected outsiders, including key suppliers, partners, customers, consultants, accountants, and attorneys, to ensure a full circle of observations and recommendations on the current state and future prospects for the company is explored.

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From an initial understanding of the company, a list of critical leadership competencies can be developed. The list will be unique to each company's circumstances, but might include such areas as the CEO's role in developing and implementing strategy, the skills necessary for relating to stakeholders, and entrepreneurial agility. One sample list is presented on pages 6-7.



These assessments provide insight into the:

- company's mission, strategy, goals, and options for strategic change;
- strengths and weaknesses of the industry, the company, and its competitors;
- company's relationship with key stakeholders, including customers, employees, strategic partners, and vendors;
- organization structure, leadership talent, decision-making and governance processes, and relationships with individual directors and the board at large;
- company's financial performance compared to plan, and its historical stock value and credit rating track record; and
- history of company-wide initiatives and change successes and disappointments, such as mergers and joint ventures, new business initiatives, spin-offs, or executive turnover.

This assessment of the company, its executive leadership team, and its directors will help to form questions to use during the interview and collaboration phase. As we progress through successive interviews with the candidates, directors, and other stakeholders, we continue to refine a vision of the skills and qualifications needed in the new CEO.

Is this the kind of company that needs a "steady-as-you-go" manager, who can keep the company running smoothly on its current track? Or does the next CEO need to be an aggressive and agile change manager, who can create a new direction for the company and lead it through the changes and surprises it will inevitably encounter?

Is this the kind of company that needs a sales and marketing executive to focus on growth? Or does the next CEO need to be a strong operations executive to focus on efficiency and profitability?

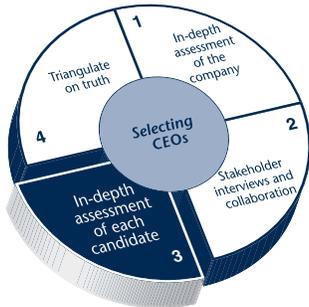
This strategy-based vision of required CEO competencies is especially important in situations where there are divergent views among directors and current executives. An independent analysis can be valuable not only in better defining the type of CEO to be selected but also in developing a consensus on the critical future direction for the enterprise.

2. Stakeholder interviews and collaboration

Working with the board chairman, the chairman of the nominating committee, and the current CEO, BEP compiles a list of directors, senior leaders, direct reports, and other key stakeholders for confidential interviews.

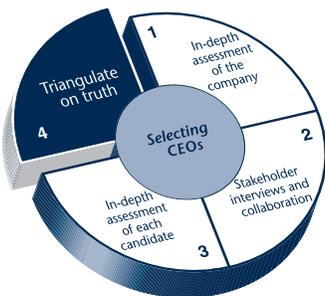
Interviewees are selected based on a combination of factors, including their role in the company and how well they know the company, the industry, the emerging strategic challenges, and the candidates. They are given the list of leadership competencies identified in Phase 1, and asked to weigh the importance of the list for the enterprise's future. Interviewees are then asked to evaluate the candidates' competencies against the desired competencies.

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Establishing an honest, open rapport with the candidate to understand his or her view of an ideal organizational fit is very important.

It is not at all beneficial to select the ideal candidate from the company's point of view . . . only to have the new CEO leave in a year or two for an opportunity offering a better fit from the candidate's point of view.



Interviews are normally one and a half hours of open-ended collaboration. Follow-up interviews are frequently conducted with key individuals as opposing viewpoints are discovered during the interview phase. Additional stakeholders may be identified and interviewed to ensure all key opinions are given consideration.

At the end of this phase, there will be a broad consensus on the company's long-term strategy, the related critical leadership competencies, and candidate competencies assessed by key stakeholders.

3. In-depth assessment of each candidate

A thorough assessment of each candidate is important not only for the sake of the company but also to help the candidate realistically evaluate whether the CEO position fits his or her skills and future goals. The assessment should include reviewing the candidate's competencies, vision for the company's future, planned timeline and milestones for change, and observing the candidate's interactions with colleagues.

BEP focuses on three steps in the assessment process:

- We ask each candidate to prepare a written vision statement of his or her plans for the company, including immediate and longer-term direction and actions, timeline, leadership talent, financial and technology resources, and organization structure. We discuss the statement in detail with the candidate to be certain that we understand the vision, and why and how it was developed.
- We conduct extensive discussions with the candidate related to his or her self-assessment of skills, accomplishments, personal goals for the future, and lessons learned from past successful and less-than-successful initiatives.
- We observe the candidate in meetings with direct reports, senior management, directors, and other stakeholders where possible. We find that, beyond the somewhat artificial interviews, we must observe candidates during candid interactions with colleagues in the course of routine decision-making and planning.

Through this process we can assess each candidate's strengths and weaknesses in four important areas:

- business leadership, including an understanding of strategy implementation and leadership development;
- entrepreneurial agility and prudent risk-taking;
- communications, interpersonal skills, and integrity; and
- ability to focus on performance metrics and to deliver results.

4. Triangulate on truth – the process of assessing and rationalizing wide-ranging perspectives

An aggressive interview plan results in responses that vary greatly, and frequently by 180 degrees. We follow a process of qualitative and quantitative assessment, analyzing input from a variety of sources and correlating differing opinions and interpretations with facts and research. We refer to this process as triangulating on truth.

In one recent internal CEO candidate review, it became clear that the candidate was not a match for the company's needs, and an outside search was initiated. The in-depth company and candidate assessment enabled a fast-track search based on a consensus on the company's strategy and the leadership needs identified during the process.

In another recent CEO succession review, the candidate might have been the correct choice, but he required additional coaching and development in a few critical competencies. A comprehensive plan was formulated for competency and leadership improvements in targeted areas.

The assessment process also includes on-going reporting to decision makers, to refine the vision of company direction and the leadership competencies required to get there. In this way, the alignment between company needs and candidate abilities becomes clear to everyone involved in the process. Final recommendations should not be surprising to anyone, including, hopefully, the CEO candidates.

Other benefits of a comprehensive methodology and review

An objective, broad-gauged candidate evaluation process has the additional benefit of spotlighting a number of opportunities to strengthen the role and effectiveness of directors. In BEP's experience, changes are often instituted.

Below are some examples.

- Directors become aware that insufficient attention has been focused on developing senior leaders. Directors who are passionate about leadership development can be identified to implement initiatives focused on strengthening leaders.
- Where the CEO succession transition processes have not been clearly defined, a transition plan and timetable is developed for the clear passing of authority and responsibility.
- Board leaders and directors sometimes discover that they are not as well informed about the condition of their company as they should be. During one CEO succession assessment, it became clear that a major business unit was on the verge of failure. Overseas competition had taken over most of the market share, and a significant turnaround was needed.
- An off-site collaboration meeting with the board and senior executives is often helpful for a strategic and tactical plan review with a focus on growth plans, performance metrics, resource requirements, organization, and talent. The outcome of this collaboration can drive consensus on leadership competencies not only for the CEO but for other key senior leadership positions.
- Directors become aware of the importance of alignment with senior leaders. One technique is to align specific directors to specific goals, objectives, and initiatives in the company's strategic plan. With this process, directors become more knowledgeable about both company challenges and the talent and leadership skills of senior executives.

Leadership competencies

Specific leadership competencies will be unique to each company's situation. A list of CEO competencies, tailored to the enterprise's growth strategies and challenges must drive the discussion of each candidate's strengths and development needs.

The list on pages 6-7 was developed recently with one of our global technology clients for their CEO succession review. It provides an example of some of the competency areas that might be considered.

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A recent research study focused on the question: What do boards of directors and CEOs need from their succession process to ensure that they have the right executives in place to lead them to “responsible commercial success?”

Two important findings included:

1. CEOs and boards know too little about the character and values of their business leaders relative to their understanding of professional experience and skills.
2. Compliance means little without a culture of integrity.

Source: Assuring Ethical and Responsible Leadership, Heidrick & Struggles, Lore International Institute, and Neisendorf & Associates, Inc. (see www.heidrick.com)

Sample List of Leadership Competencies – see page 3 for context

BUSINESS LEADERSHIP

▶ *Visionary Thinking*

Creates and articulates sound, implementable, and compelling vision; translates vision into strategy, strategic position, and action; inspires shared purpose; understands the big picture; anticipates opportunities and obstacles

▶ *Knowledge, Expertise, and Intellect*

Business acumen; general business knowledge; knowledge of industry; marketing acumen; understands technology of the business; intellectual horsepower; deals with concepts and complexity comfortably; proven performer; inspires confidence; demands, understands, and applies insights related to existing and evolving competitive horizon

▶ *Business Judgment*

Exercises seasoned judgment; ability to critically assess; uses analytics, data, and logic; ability to synthesize and communicate; effective problem solver; sets priorities; ability to optimize and balance opportunities and risk; makes effective decisions in ambiguous situations

ENTREPRENEURIAL AGILITY

▶ *Fosters Innovation*

Experienced in managing the creative process of others; thinks outside-the-box but is also a realist; receptive to outside-the-box thinking by others; can project how potential ideas may play out in the market; good at bringing creative ideas of others to market

▶ *Change Leader*

Champions continuous change; initiates new approaches; impatient for improvement; grasps technological change; ability to manage crises and adversity

▶ *Flexible and Agile*

Encourages varied views; open-minded; adaptable but focused; ready to consider change; encourages constructive challenge; stays focused on the few vital priorities and performance commitments

▶ *Continuous Learner*

Seeks opportunities to learn; learns from mistakes; seeks feedback and changes as a result; seeks and uses counsel and advice; learns quickly when facing new problems; enjoys the challenge of unfamiliar tasks; picks up the need to change behavior quickly; builds networks

INTERPERSONAL SKILLS

▶ *Communication*

Effectively communicates with different stakeholders; recognizes that the best communicators listen at least 50% of the time; fosters open dialogue; is a sensitive communicator and does not hold back things that need to be said; does not voice own views too early

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Have you researched your candidates on the Internet? In one recent engagement we entered candidates' names in several search engines and found that one candidate had been named in an SEC complaint . . . information that had not been revealed through interviews or other background verifications.

We look forward to sharing our lessons learned in more detail.

We welcome your suggestions, thoughts, and agreement or disagreement. Please contact our *Insights* editor, Sharon Carrigan, at 203.801.5010 or sec@bepartners.com.

Interpersonal Skills (continued)

▶ ***Energy and Passion***

Demonstrates a passion for the business; energizes others; demonstrates a strong commitment; perseveres

▶ ***Promotes Teamwork***

Shares leadership; integrates across functions; shares wins and successes; approachable; resolves conflicts with vision, competence, respect, and sensitivity

▶ ***Leverages People***

Attracts, develops, and retains talent; creates effective organization structures; builds effective group at top; coaches and mentors; delegates effectively; confronts performance issues; fosters diversity

▶ ***Integrity***

Is honest, trustworthy, and fair; tells the truth about important and unimportant things; does not use authority carelessly; maintains authentic relationships; keeps confidences; consistent in action; does not misrepresent self; has respect for individuals

RESULTS ORIENTATION

▶ ***Focuses on Results***

Defines practical and achievable performance metrics and drives for results; bias towards action; sense of urgency; seeks competitive edge; develops and improves processes; demonstrates initiative and takes ownership; high performance standards; productive fear of failure, with a bias toward leading prudent risk-taking; able to penetrate to micro level of business; ability to close (internally and externally)

▶ ***Customer and Supplier Focus***

Understands customers and their needs and challenges; develops and builds customer and supplier relationships; commercial focus; market focus; pursues opportunities

▶ ***Global Mind-Set***

Understands global commerce; cross-cultural awareness; sees things from multiple perspectives; reaches outside for new ideas

Summary

CEOs are critical athletes.

Many of our director clients believe, as does BEP, that the CEO successor decision is their most important decision.

Directors can, and should, be more effective – and more creative and thorough – in ensuring that the CEO selection process is based on a shared vision of the company's future growth strategy. Directors must also ensure that the new CEO is appropriately mentored and coached to success.

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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. We welcome your suggestions, thoughts, and agreement or disagreement. Please visit www.bepartners.com for other chapters of *Board Effectiveness Insights*.

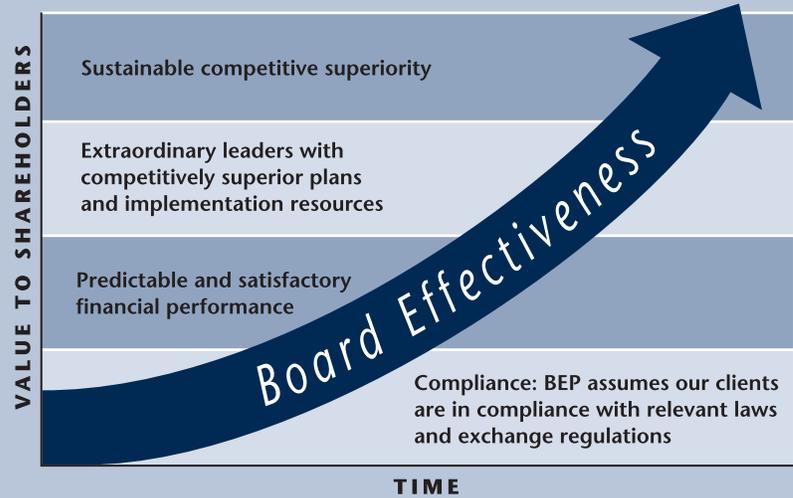
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Our Firm

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 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 37 years to consulting and partnering with CEOs, senior leaders, and directors, and to 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

Our Research & Operations Center (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.