BOARD OVERSIGHT OF A NEW CEO 8:30 AM

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George Bradt has a unique perspective on helping leaders accelerate transitions based on his combined senior line management and consulting experience. After his education at Harvard and Wharton, George progressed through a series of sales, marketing and general management roles around the world at Fortune 500 companies including Unilever, Procter & Gamble, Coca-Cola, and then J.D. Power and Associates as chief executive of its Power Information Network spin off. Now he is Managing Director of PrimeGenesis, the executive onboarding and transition acceleration group he founded in 2002. Since then, PrimeGenesis has been able to reduce the risk of failure fourfold for executives they have worked with - from 40% to 10% by helping them and their teams deliver better results faster.

George is the author of *The New Leader's 100-Day Action Plan* (Wiley, 2006) and of *Back-to-School Chats - Advice from Fathers to Sons* (Durban House, 2006).

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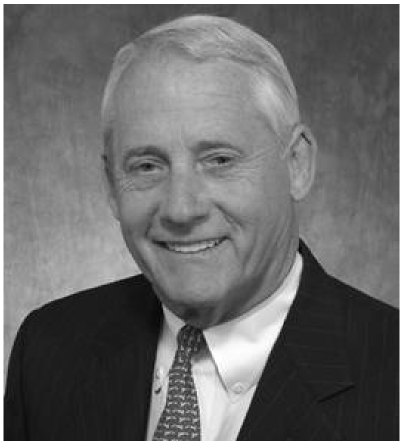

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Joseph E. Griesedieck is the Vice Chairman of Korn/Ferry International as well as Managing Director, CEO and Board Services.

With more than 25 years in the executive search profession, Mr. Griesedieck is considered to be one of the industry's premier leaders. His focus at Korn/Ferry is primarily on engagements for CEO and Board Director positions, including both public and private companies across multiple industries. During his career, he has successfully completed multiple CEO and Board Director searches for companies ranging from the Fortune 500 to private companies in nearly every major industry grouping. .

A graduate of Brown University, Mr. Griesedieck's prior experience includes two terms as global chief executive of Spencer Stuart, where he also served as co-head of the firm's Strategic Leadership practice in North America. He began his career in executive search with Russell Reynolds Associates, establishing the firm's offices in San Francisco and the Silicon Valley.

Prior to entering the executive search profession he was a Group Vice President with Alexander & Baldwin, Inc. and spent a number of years with the Falstaff Brewing Corporation, concluding his tenure as President & Chief Operating Officer. He also served as a Director of the company.

Mr. Griesedieck is a member of the Board of Jobs for America's Graduates, a national volunteer organization that provides comprehensive school-to-career programs to more than 85,000 at-risk high school youth in 27 states. In 2006, he was appointed by Governor Arnold Schwarzenegger to serve on the California State Workforce Investment Board. He also serves as a member of the Board of Strategic Partnerships, LLC, a Washington, D.C.-based business services company.

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Thomas E. Hartman, a partner with Foley & Lardner LLP, is a member of the Transactional & Securities Practice and Life Sciences and Automotive Industry Teams. His practice is focused on corporate and securities law matters, including public equity and debt financings, mergers and acquisitions, venture capital transactions, business formation and governance, and federal and state securities law compliance counseling.

Mr. Hartman has participated in over 110 public, private and venture capital securities transactions involving more than $3 billion in total proceeds. These transactions have included early, middle and late stage venture financings, initial public equity and debt offerings and follow-on public offerings. Mr. Hartman has also participated in over 125 business combination transactions aggregating over $10 billion in total consideration. These transactions have included public and private company mergers, spin-offs, and sales/purchases of divisions and business lines.

Mr. Hartman is a member of the State Bar of Michigan, the District of Columbia Bar, the State Bar of Wisconsin, the State Bar of Illinois and the American Bar Association. Since 2003, Mr. Hartman has served as director of Foley & Lardner's annual study, "The Cost of Being Public in the Era of Sarbanes-Oxley."

Mr. Hartman received his J.D. degree, *cum laude* and Order of the Coif, from the University of Wisconsin in 1991. He graduated from the University of Michigan in 1984 with a degree in industrial & operations engineering. He spent four years as a United States Naval Officer, leaving the Navy as a Lieutenant in 1988.

BOARD OVERSIGHT OF A NEW CEO

[This material is partially derived from *The New Leader's 100-Day Action Plan* – Bradt, et al (Wiley, 2006)]

The selection of a successor to a departing CEO is arguably the most important role of the board of directors. Ultimately, the goals of the board with respect to the CEO should be to help establish a solid foundation from which the new CEO can succeed, to stay engaged with the CEO's progress by monitoring and evaluating the CEO, and to allow the CEO to do his or her job so the board can focus on its mandate of guiding the company through change.

The Importance of the New CEO's First 100 Days

CEO failure is on the rise. In recent years, approximately 15 percent of *Fortune* 500 companies replaced their CEOs. Finding a new CEO is very important to shareholders and institutional investors, and the selection of a successor to a departing CEO is one of the most important roles of the board of directors. Accordingly, CEO succession should be discussed at every board meeting, rather than only once a year. However, to minimize the risk of failure, the board's involvement with the new CEO cannot end upon his or her hiring.

Generally, there are seven key factors that can contribute to a new CEO's failure, including:

1. Organization: If the business lacks a winning strategy or is unable to implement its strategy effectively, the new CEO, no matter how talented, will likely fail.

2. Role: New CEOs often fail because expectations are not aligned or their role is not clearly defined. It is difficult for a new CEO to succeed when it is unclear how success is to be measured or how the organization makes decisions.

3. Personal: No matter how good a board's selection criteria and interview process is, sometimes a new CEO is just not the right fit for the organization.

4. Learning: A new CEO entering into a new industry may face a steep learning curve and may not get up to speed fast enough to be successful.

5. Relationship: The new CEO may fail because of his or her inability to establish key relationships with important employees and customers.

6. Delivery: New CEOs often fail because they are pressured to build a high performing team and deliver fast results, which may not be practical in some situations.

7. Adjustment: Even if the new CEO is the perfect person for the organization, the new CEO may still fail because he or she is not be able to adjust to a changing competitive and organizational environment fast enough.

Ideally, it is best for the board of directors to take the role and personal factors off the table before a new CEO joins the organization. The board can accomplish this by having an up to date succession plan, conducting a thorough interview process and clearly defining the role of the new CEO. The board should work quickly with the new CEO to evaluate existing strategy and determine if a new or revised strategy is appropriate. The board must also jump start the learning, relationship and delivery processes during the first 100 days with a new CEO.

A new CEO will have a difficult time succeeding if the board simply stays out of way, rather than actively seeking to help and foster his or her transition into the organization. The first 100 days are critical to a new CEO's ability to succeed in an organization. During these first few months, the board should play an active role in encouraging and enabling the new CEO to establish key relationships. Board members typically have established and personal relationships with key customers or employees, who are vital to the success of the organization. The board members should make every effort to ensure that the new CEO is able to meet with those individuals. It is also important to make sure that the board and the new CEO act as, and are perceived as, a cohesive team.

It is vital that the board of directors and the new CEO operate in a mutual and transparent environment. A great way to synchronize the board and the CEO is by having the new CEO meet with each director, one-on-one, as soon as practicable. By having individual meetings, the new CEO is able to gain valuable insight into how the organization operates and establish early relationships with the members of the board. Furthermore, it helps the new CEO determine each individual director's contribution to and visions for the organization. It is also good to start early and define the criteria upon which the new CEO's performance will be measured. The board should clearly communicate the criteria to the new CEO and evaluate the new CEO's performance often. When doing so, the new CEO should be evaluated on all aspects, rather than only the financial performance of the organization.

Cheat, control, exploit - keys to successful leadership onboarding

Cheat, control and exploit may not sound like the most politically correct advice. But when moving into a new and challenging position, this is just what new leaders must do:

CHEAT	by getting a head start before the start
CONTROL	their all-important initial impressions
EXPLOIT	opportunities through a high performing team

And more executives today are moving into more complex situations than ever before.

> "The brutal reality is that executives have less time than ever to prove their worth."
> BusinessWeek, Feb 12, 2007, "CEOs – Hello You Must Be Going", Nanette Byrnes and David Kiley
>
> "Never has the position of top banana been harder to cling on to."
> The Economist, July 13, 2006, "That Tricky First 100 Days"
>
> "In today's era of increasingly activist investors and boards, a heightened focus on fast results is making the first few months feel more like a trial by fire than a honeymoon."
> BusinessWeek, Feb. 5, 2007 "How To Take The Reins At Top Speed", Jena McGregor

Here's more on the cheat, control and exploit advice:

CHEAT: The time between accepting a new job and actually starting is a golden moment for a new leader to jumpstart relationships and learning. They should focus on three things:

1. **Craft a plan**. Key elements include identifying the important stakeholders, laying out the main communication points and thinking through important steps for before, during and after the start.
2. **Conduct pre-boarding conversations**. Everything communicates – including order. Seeking out and having conversations with the most important stakeholders before Day One sends a powerful message about how much the new leader values them.
3. **Get help**. Everybody needs some sort of help. New leaders moving into complex situations need help in terms of information, relationship-building and extra leverage to get done all the things they need to get done almost simultaneously. More on this below.

CONTROL: New leaders must take control of their own onboarding and, especially, the all-important initial impressions. They need to make sure others see, hear and believe what the new leader wants them to see, hear and believe about them.

1. **What they see.** In the early days, people observe everything about the new leader to gather clues about what they're like. So visual signals like office set up and pictures on the wall carry a lot of weight as symbols of what makes the new leader tick.
2. **What they hear.** We communicate with stories. The choice of examples to illustrate those stories carries much weight. New leaders need to move from telling the "they" stories about their old organizations to "we" stories about the new organization ASAP.
3. **What they believe.** In the early days, people don't really believe the early symbols and stories. They only believe what new leaders actually do. It's one thing to say customers are important. It's something entirely different to get out and meet with them.

EXPLOIT: Leaders are judged by the results produced by their teams. Exploiting opportunities is dramatically easier with a high performing team in place. And high performing teams are born out of aligning people, plans and practices around a shared purpose. We suggest five steps:

1. Get everyone on the same page with a shared purpose or burning **imperative**
2. Operationalize that with a team **milestone**s management process
3. Charter sub-teams to deliver **early wins**
4. Get the right people in the right **roles** with the right support over time
5. Manage **communication** as an on-going campaign to shape the new culture

The good news is that there is an increased array of help available to new leaders. The more complex the situation and orientation and the more urgent the transition, the more intensive that help should be. **Internal mentors** are the least intensive, and appropriate when all the new leader needs is on the job knowledge sharing. The next step up is **transition coaching** where behind the scenes leadership development is useful. In those few, most complex situations, hands-on, operationally experienced **transition accelerators** can provide increased leverage.

Analogies help here. Professional golfers have coaches AND caddies. Their coaches serve as behind the scenes advisors between tournaments. Their caddies, like harbor pilots and mountain climbing sherpas, certainly do provide advice and counsel, but their real value is in their tangible contributions on the field of play. They accelerate progress through what they do as well as what they say. In the most complex transitions, that extra leverage can make all the difference.

As one completely random example, PrimeGenesis is just such a transition accelerator and works with new leaders and their teams across three stages of onboarding:

- Cheat: Creating an onboarding plan and getting a jumpstart on building relationships
- Control: Taking charge of those critical initial impressions on and around Day One
- Exploit: Accelerating the development of a high performing team with imperative workshops, milestone management processes, early wins, role sorts and communication plans.

When it comes to accelerating progress when moving into complex situations, cheating, controlling and exploiting are good things.

George Bradt is Managing Director of PrimeGenesis, an executive onboarding and transition acceleration group that helps leaders in new and challenging positions deliver better results faster and reduce the risk of failure. Its expert specialists provide hands-on facilitation of practical tools based on their own senior line management and organizational development experience with leading companies around the world. There's more about them at www.primegenesis.com.

George is the author of *The New Leader's 100-Day Action Plan* (Wiley, 2006)

COMPLETING the CEO SUCCESSION PLANNING PICTURE

By Joe Griesedieck and Bob Sutton

CEO succession planning qualifies as one of the most important responsibilities assigned to the board of directors. The task also represents one of the most difficult processes a board will undertake. Recent developments have amplified the importance – and the risks – of evaluating candidates and selecting chief executives. Ample research indicates that CEO succession planning capabilities are not as effective, nor as complete, as they should be. There are two primary reasons for this shortcoming: deficient understanding of the external talent marketplace and an over-reliance on subjective evaluations of potential successors. This white paper examines CEO succession planning, identifies common shortcomings and highlights the methods leading boards use to make the process more comprehensive, more effective and less risky.

As many as two-thirds of CEOs and corporate boards of directors at North American companies acknowledge that they do not give CEO succession planning the time and effort that they believe the crucial activity warrants. Consequently, there has been an onslaught of "How To's" that purport to show readers how to improve succession planning programs. However, the lion's share of that guidance – like the majority of CEO succession planning efforts themselves – falls short because they neglect two vital perspectives that fortify CEO succession planning:

1) The importance of balancing internally-focused succession plans with a comprehensive and current understanding of the external CEO talent marketplace; and

2) The importance of balancing subjective judgments of talent, capabilities and merit with rigorous assessments and objective tools.

These considerations deliver several benefits that foster a more robust CEO succession planning program. By eliminating the blind spots that limit most succession planning efforts, corporate directors and HR/compensation committees of the board, in particular, sharpen their view of best-in-class talent and strengthen and broaden their evaluation of potential CEO successors.

In doing so, corporate directors can limit the risks that accompany incomplete or flawed succession planning efforts in order to effectively fulfill what many deem to be the most important obligation of their stewardship role.

CEO Selection Under the Microscope

In recent years, three factors have converged to intensify both the importance and the risks of CEO succession planning.

First, it has grown increasingly apparent that the success of an organization is wedded to the effectiveness of the individual filling the CEO role. The position is a very important determinant of shareholder returns, employee satisfaction and future organizational success in general. In some cases, an ineffective CEO can drastically erode the value of a corporation. Conversely, evidence also shows that high-performing CEOs augment the value of a corporation – in some cases, radically.

"By eliminating the blind spots that limit most succession planning efforts, corporate directors and HR/compensation committees of the board, in particular, sharpen their view of best-in-class talent and strengthen and broaden their evaluation of potential CEO successors."

The connection between CEO performance and organizational performance is of utmost importance to directors. Recent research conducted by Korn/Ferry International and board governance consulting firm Patrick O'Callaghan and Associates indicates that the board of directors at 85 percent of North American companies surveyed take primary responsibility for CEO succession planning efforts. In 58 percent of those companies, the human resources and compensation committee takes the lead role.

Those directors have been busy, as the second factor driving succession planning's growing importance indicates: the frequency of CEO turnover has increased dramatically since the mid-1990s. From 1995 to 2004, the rate of CEO turnover increased a whopping 300 percent, according to Booz Allen Hamilton research. During that time, the frequency with which top executives were forced from office, as opposed to leaving voluntarily or due to natural causes, also increased. In addition to triggering additional organizational turmoil, unexpected CEO departures expose the potential harm of ineffective or incomplete CEO succession plans.

Third, the scrutiny of executives and corporate boards has surged in the past few years thanks to a stream of highly visible corporate scandals and comprehensive regulations, such as the Sarbanes-Oxley Act in the United States and the Budget Measures Act in Canada, that call for greater transparency in high-level decision-making. A more demanding and more informed audience of regulators, shareholders and other stakeholders expects evidence that corporate boards are making important decisions based on detailed, complete and balanced information.

Few, if any, of those decisions possess greater importance than the board's selection of a new chief executive officer according to 81 percent of directors of large companies, who cited CEO succession planning as one of their three most important responsibilities in the Korn/Ferry-O'Callaghan research.

The Risks of Myopia and Subjectivity

Despite the value that directors assign to the task, a sizeable majority of board members remain dissatisfied with actual succession planning efforts: 66 percent of those surveyed indicate that their boards do not allocate sufficient time and attention to CEO succession planning.

While the amount of time and attention dedicated to succession planning is essential, the nature of the process may be even more important. For example, if boards focus too much on evaluating CEO candidates within the organization, they risk overlooking candidates of greater equal or merit outside the company.

Without the benefit of an external market perspective, critical questions about the merit of internal candidates may not be raised. How skilled and experienced (and, ultimately, attractive) are internal candidates compared to executives at similar levels within competing companies? It is impossible to conduct that comparison without sufficient information of the external CEO talent marketplace.

This competitive intelligence also delivers ancillary benefits. For example, if an external market scan indicates that potential CEO candidates at other organizations possess a higher degree of skills and experience, that insight can and should drive changes to existing executive development programs within the company. Conversely, if the external market scan suggests that a company's internal collection of future CEO candidates far outshines those in other companies, that insight can drive changes to existing retention approaches to prevent internal candidates from being hired away by other companies.

This kind of comparative view enables directors to perform a stronger critical assessment of whether or not their existing CEO candidates – as well as their existing CEO succession planning processes – are sufficient.

Subjectivity can also impede the effectiveness of many CEO succession planning efforts. Many processes rely too heavily on subjective evaluations of talent. In these situations, CEO succession planning consists of the CEO presenting a plan with specific succession candidates to the board for its approval. While these plans present the candidate's historical track record and contain assessments based on observable performance (preferably in the form of 360 performance evaluations), they largely reflect the judgment, no matter how well-meaning, of a single person: the CEO. Not surprisingly, this approach can leave the process vulnerable to errors.

Evaluating Current Planning

To reduce the likelihood of errors in judgment and to gain a more complete picture of the CEO-candidate universe, CEOs and their boards should consider integrating objective measures into their evaluation process while extending their planning processes beyond the four walls of the organization.

Before doing so, it is important to assemble an accurate picture of their current CEO succession

A Troubling Gap

CEOs and directors who identify CEO succession planning as one of the board's three most important functions:	**66%**
CEOs and directors who report that their boards do not give CEO succession planning the time and attention it deserves:	**66%**

Source: Research of 165 CEOs and corporate directors in North America, conducted by Korn/Ferry International and Patrick O'Callaghan and Associates.

planning process. Directors can do so by asking the following questions about their current planning approach:

- To what degree is our process thoughtful, methodical, definitive and comprehensive?
- Does our process consider the external talent pool as well as internal candidates?
- Has the process been updated with fresh information within the past year?
- Is our process highly dependent on the current CEO's judgment?
- Is the subjective nature of the process balanced with objective validation?
- What potential changes in our markets, strategy, technology or customers might affect the specific skills and experience the organization will need in the future?

The wide range of executive assessment methodologies available in the marketplace represents one form of objective validation. With the robust growth of science-based behavioral assessments in the past decade, more companies have integrated behavioral-assessment methodologies into recruiting and screening processes, training and development efforts and succession planning activities at all levels of the organization.

Last year, an article published in the *Harvard Business Review* ("The Seasoned Executive's Decision-Making Style") highlighted significant findings from Korn/Ferry's assessment model. The article demonstrated that the key to success at the senior-executive level is in the executive's approach to decision-making. The research, which was based on analyses of a Korn/Ferry database of 120,000 executives, identified specific leadership and thinking-style profiles that successful top executives tend to develop and employ at different points in their career development.

"To reduce the likelihood of errors in judgment and to gain a more complete picture of the CEO-candidate universe, CEOs and their boards should consider integrating objective measures into their evaluation process while extending their planning processes beyond the four walls of the organization."

These types of objective, scientific analyses complement the subjective judgments that can dominate typical CEO succession planning decisions. The objective analyses can minimize the risk of subjective errors while helping boards assemble a more complete collection of information to drive and support CEO selection decisions.

A Proactive Call for External Insight

The board of directors for a large North American oil and gas company recently achieved those outcomes by developing a more proactive and balanced approach to CEO succession planning.

When the company's CEO indicated to the board of directors that he planned to retire within three to five years, the HR committee of the board immediately examined the CEO succession plan.

The ensuing review confirmed for the HR committee that the plan provided a satisfactorily detailed rundown of potential CEO successors

"The article demonstrated that the key to success at the senior-executive level is in the executive's approach to decision-making."

within the company. However, the committee was uncomfortable with the plan for two reasons. First, it did not afford them an understanding of the external talent pool. Second, the committee members felt uncertain about its ability to attract suitable external candidates.

Feeling they were at a disadvantage, the board's HR committee hired Korn/Ferry to conduct competitive intelligence in the form of an external market scan.

The resulting book-length market report was presented first to the HR committee and then to the entire board. It featured a list of 150 senior executives currently working for the 25 largest oil and gas companies in the world.

The company's largest competitors were represented by as many as 15 executives each, while the smallest competitors were represented by one (the CEO) or two top executives – an assortment based on the company's need and the size of its business. The top dozen or so executives at the company's largest competitors managed businesses within their massive corporations that are roughly the same size as their company (based on revenue and workforce size).

The report then identified 25 potential targets within the larger population of 150 senior executives. Those 25 potential candidates were assessed against the selection criteria developed by the board and were each ranked based on the probability that role would be desirable to them.

The external market scan afforded the HR committee and the rest of the board an overview of the marketplace for CEO talent and a better understanding of their ability to attract external talent should they choose that route. The intelligence also enabled the board to compare internal and external candidates. With that information, the board's initial concern ultimately turned into confidence.

Look Ahead, Be Prepared

It should be emphasized that the company highlighted here made the wise decision to complete the succession planning picture well before the actual CEO succession took place.

Boards that elected to operate with less foresight have discovered how difficult it is to conduct external market scans under the intense pressure of filling a vacant CEO seat.

Regardless of how far off a CEO succession event appears, it pays to eliminate blind spots in existing succession plans now. By doing so, boards of directors can limit the troubling risks that accompany unexpected – and increasingly frequent – CEO departures.

KEY TAKEAWAYS

1. CEO succession planning represents one of the most important and challenging obligations of the corporate board of directors.

2. Research indicates that a strong majority of corporate boards of companies in North America do not devote sufficient time and effort to CEO succession planning.

3. CEO succession planning commonly falls short in two areas: the need to balance internal evaluations of potential CEO candidates with comprehensive external market scans of potential CEO candidates; and the need to balance subjective judgments of the talent pool's merit with objective evaluation tools.

4. Corporate boards of directors that integrate greater objectivity into succession planning and evaluate both internal and external candidates strengthen their CEO selection process, put their companies in a better position to achieve future success and, by doing so, fulfill their primary obligation to shareholders, employees and other stakeholders.

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About Korn/Ferry International

Korn/Ferry International, with more than 70 offices in 40 countries, is a premier global provider of talent management solutions. Based in Los Angeles, the firm delivers an array of solutions that help clients to identify, deploy, develop, retain and reward their talent.

For more information on the Korn/Ferry International family of companies, visit www.kornferry.com.