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Board Oversight of a New CEO

2008 NATIONAL DIRECTORS INSTITUTE

BOARD OVERSIGHT OF A NEW CEO

INTRODUCTION

"Board Oversight of a New CEO" was a featured breakout session at the seventh annual National Directors Institute hosted by Foley & Lardner LLP on March 6, 2008, in Chicago. The panel discussion was led by Foley Transactional & Securities Partner Thomas Hartman. The panel included George Bradt, Managing Director of PrimeGenesis and author of *The New Leader's 100-Day Action Plan* (Wiley, 2006), and Joseph Griesedieck, Vice Chairman, Managing Director, and CEO of Korn/Ferry International.

THREE KEYS TO SUCCESS FOR A NEW CEO

In today's era of increasingly active shareholders and boards, new CEOs have very little time to prove that they can add value to an organization. A new CEO can increase the chances of his or her success by following the three keys to success set forth below:

<u>Cheat</u>: Although this may not sound like the most politically correct advice, a new CEO can greatly increase his or her chances for success with an organization by jump-starting the learning process before the first day on the job. A new CEO must identify the important stakeholders and craft a plan for the organization that is communicated to those key stakeholders before the first day on the job.

<u>Control</u>: A new CEO must take control of the message that he or she wants to convey. A CEO is the leader of an organization, and everything a new CEO does in his or her first 100 days will create an initial and lasting impression on the members of the organization that will be asked to buy into the new CEO's message and initiatives. A new CEO must control the messages that he or she wants to convey.

<u>Exploit</u>: A CEO must exploit market opportunities by building a high-performing team. A CEO cannot lead a successful organization without an intact solid team. A new CEO must ensure that he or she can get the right people in the right roles to succeed.

THE IMPORTANCE OF THE BOARD'S ROLE WITH A NEW CEO

The selection of a successor to a departing CEO is arguably 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. Finding a new CEO is very important to shareholders and institutional investors. However, to minimize the risk of failure, the board's involvement with the new CEO cannot end upon his or her hiring. A board should help a new CEO to become successful before his or her first day on the job, by assisting the new CEO to jump-start the learning curve (Cheat), control his or her message (Control), and develop a high-performing team (Exploit). The quality of interaction between the board and a new CEO can be the most important factor in why a new CEO fails or succeeds.

The board can help the new CEO jump-start the learning process before the new CEO's first day on the job 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. 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 to have the new CEO meet with each director for a one-on-one conversation before the CEO starts with the new organization or as soon as possible thereafter. By having one-on-one contact, the new CEO is able to gain valuable insight into how the organization operates, and it is also great way to establish early relationships between the individual members of the board and the new CEO. Furthermore, it helps the new CEO determine each individual director's contribution to and visions for the organization, which in turn allows the new CEO to develop a comprehensive plan for the organization and put the right people in the roles to succeed.

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 100 days, 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 and talk 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. A major reason that new CEOs fail is a failure of the new CEO to link to the board.

PEER-TO-PEER EXPERIENCES WITH NEW CEOS

Many of the attendees at the NDI session shared different ideas for what a board can do to help a new CEO transition into an organization. Some of the topics raised as a result of these peer-to-peer discussions are follows:

Allowing the outgoing CEO to remain on the board of directors to assist the new CEO transition into the organization. The majority of the attendees thought that having the outgoing CEO remain on the board of directors while the new CEO was transitioning into his or her new role was not a good idea. Having the outgoing CEO remain on the board can raise a number of questions and create problems. For example, employees and management may question who really runs the organization — the outgoing CEO or the new CEO? In all likelihood, the outgoing CEO will have established relationships and loyalties that are hard to break and can undermine the new CEO's authority and message. Although having the outgoing CEO sit on the board may work in some situations, the group agreed that the best practice would be to ask the new CEO what he or she would prefer.

Designating a committee or board member to help the new CEO transition into the organization and to monitor his or her progress. Another way that a board of directors can assist a new CEO transition into an organization is by creating a committee or designating a board member that is assigned the task of assisting and monitoring the new CEO. Having a designated committee or board member communicate the board's ideas and messages to the new CEO can create a very effective chain of communication between the board and the new CEO. Rather than having multiple board members communicating multiple messages to the new CEO, a designated committee or board member can deliver one concise message the new CEO. Also, the committee or board member can report back to the board of directors on the new CEO's message and progress.
Summary

All the panelists agreed that the board of directors plays a vital role in deciding whether a new CEO will be successful. In order to minimize the risk of CEO failure, the board's involvement with the new CEO cannot end upon his or her hiring. The first 100 days of a CEO's tenure are critical to his or her success, and the board's focus during that time should be on assisting the new CEO to jump-start the learning curve (Cheat), control his or her message (Control), and develop a high-performing team (Exploit).

FOR MORE INFORMATION

For more information on the "Board Oversight of a New CEO" NDI session, please feel free to contact the speakers directly:

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