

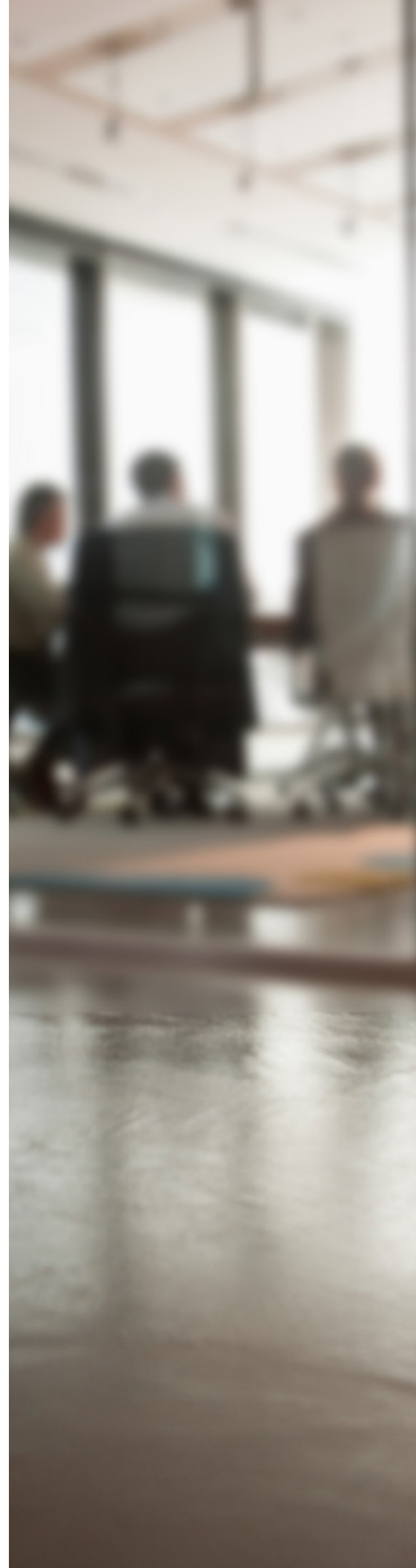
Inheriting A Board

A Guide for CEOs

The job of chief executive is no casual undertaking. The first 100 days is a crucial period for a new CEO, in terms of learning, adjustment and setting the agenda. While a CEO's agenda may include detailed strategies for managing subordinates and taking control of the organization, new chief executives often fail to consider the body that is ultimately responsible for their success or demise — the board. Establishing a respectful working relationship with the board should be at the top of any new CEO's to-do list.

Having reached the pinnacle of executive management, a CEO — especially a first-time chief executive — may find it uncomfortable to be suddenly accountable to board members selected during the previous regime. Those board members are accustomed to the personality and habits of a predecessor, and may find the adjustment to another's leadership style initially awkward. Despite early "growing pains," however, building a solid working relationship with the board is very important for a CEO's success and longevity in the position.

Because management (the CEO) and governance (the board) are both vital to successful organizations, each party needs a keen awareness of the other — and a strong working relationship.



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But how to begin? As CEO, this may be the first time you've reported to a board. You may not be familiar with governance best practices or the new directors who have suddenly become your collective boss. Or, even if a seasoned CEO, you may want to refine the way you approach and interact with board members. There are many steps you can take to develop a productive working relationship with your board. To help, we offer the following guidelines, based on our extensive work with CEOs and their boards and our understanding of the intersection between management and governance.

MAPPING YOUR TERRITORY: THE IMPORTANCE OF ROLE DEFINITION

The relationship between a CEO and his/her board requires a sharing of power — a sensitive subject for many executives. To reduce the likelihood of neglected duties or stepped-on toes, it's helpful to draft a clear statement outlining the role of the board and the responsibilities of the CEO and the management team. Of course, the nuances of power-sharing will be worked out on a daily basis — ideally by a non-executive chairman or by a lead director, when the CEO also serves as chair of the board. But a statement of purpose has helped clarify the broad distinctions between the roles for many chief executives and boards.

Whether or not a power-sharing relationship is working is gauged not only by the way it feels to relate to your board, but also in the way the board evaluates you. A CEO evaluation provides an opportunity for the board to rate those aspects of your performance that the board is ultimately accountable for overseeing. Also, it gives you direct and candid feedback on your achievements and potential areas of improvement, as well as areas where the board is unhappy with your performance. But not all evaluation processes are ultimately productive. You should take responsibility for ensuring that the basis on which the board evaluates you is clear and designed to

provide you with the information you need for better performance. Look back at how the board evaluated your predecessor and note ways of improving the process. Think about how you want the board to evaluate you — which areas you'd like feedback on — and ensure that the relationship you form with your board will give directors the information they need to conduct a fair and accurate assessment of your performance.

TAKING STOCK: SIZING UP YOUR DIRECTORS

The most important ingredient for a high-performing board is having members whose skills are aligned with company needs and strategic direction. Also required are directors who thoroughly understand governance and foster positive and respectful relationships with each other and the CEO. Boards have been able to achieve these objectives by selecting directors carefully, clarifying expectations and providing for periodic rotation of members. You can help ensure that your board is primed for optimal performance by asking the following questions:

- » What skills and experience does each board member bring? What skills and experience are missing that will be important to our future strategy?
- » Do some of my directors have personal relationships with my predecessor and, if so, how will this affect my relationship with them?
- » How long have board members served and is there a scheduled rotation?
- » Are there interlocking directorships among the members of my board?
- » Does there appear to be a collegial relationship among directors? Does this interfere with their independence?
- » Is there a stated job description for directors?

- » Historically how have people been recruited to this board?
- » Are there directors on the board who are not contributing?
- » Does the board conduct an annual assessment?
- » Is the board complying with all current regulations that are relevant in your company?

EVALUATING THE COMMITTEES

The board's infrastructure directly impacts its effectiveness and the amount of work required of management to prepare for board and committee meetings. The goal is to put structures in place that enhance productivity and encourage active engagement, but are never cumbersome. In examining your board's structure, begin by looking at what the corporation's bylaws say about the board and its committees. There is no right or wrong number of committees — it will depend on the size of your board and the amount of work that needs to be done. Questions to ask include:

- » Is the board the right size? While the “right” size varies by company, smaller boards are often more nimble and conducive to director participation.
- » Does the board have the right committees to accomplish its work? At a minimum, the board should have an audit, a compensation and a governance/nominating committee, each made of independent directors.
- » Do committees have strong, experienced committee chairs?
- » Do committees have clear charters?
- » Do committees meet often enough? Too often?
- » What staff support is provided to committees?

EVALUATING THE BOARD MEETING

While the work of the board is in part accomplished in the committees, the board's culture is formed in the board meetings themselves. The meeting agenda, physical setup of the boardroom, time of day the meeting is held, length of the meeting and materials distributed prior to the meeting all contribute to the meeting's quality and the directors' sense of having made a contribution. Rightly or wrongly, directors form many of their impressions of the CEO and management team during their interface at the board meeting. As CEO, you're not only inheriting a board, but a boardroom and board meeting traditions. It's important to understand which of these are positives for the board and which need to be modified or eliminated.

You might begin by interviewing board members to gauge their satisfaction with the way board meetings have been conducted in the past and get their thoughts on what might be changed. Other questions to consider include:

- » Do board meeting agendas represent the issues on which I want input from the board?
- » Is the board spending time on strategic and fiduciary issues during board meetings — or just listening to management reports?
- » Is there a culture of open dialogue and healthy debate on my board? Or has the board been accustomed to hearing reports and “rubber stamping” management's decisions?
- » Am I happy with the time, place and length of board meetings?
- » Is attendance among directors high? Do directors remain engaged for the entire meeting?
- » Am I getting feedback from the board after each meeting about whether it met expectations and accomplished our goals?
- » Are directors providing input for the agenda?

- » Do directors meet in executive session (without the CEO) for some part of each meeting? Do I get feedback after these sessions?
- » Is there an annual board calendar that directs the work of the board — showing when specific items will be discussed?
- » Are board committee reports helpful to directors or simply boilerplate?
- » Do I feel energized or depleted after board meetings? How do my directors feel?

CONCLUSION

Many CEOs have productive and supportive relationships with their boards and rely heavily on directors for advice and counsel. Achieving this type of healthy interaction is easiest when the groundwork is laid early in the relationship — and when the CEO puts his/her own thumbprint on the board and its processes. Things go awry when roles and expectations are unclear and when too much “dead wood” — whether inactive directors or unwieldy processes — is allowed to exist. With the right amount of thought and effort, you will be able to foster a positive relationship with your board to sustain you during your early days on the job and support you into the future.

THE FIRST 100 DAYS

During the first 100 days of a new CEO's tenure, there are many issues that can consume the calendar. Sizing up the board often falls last on — or even off — the list. In most situations, the board is already in place, with established relationships among directors and policies and procedures for governance. Often new CEOs slide into the board routines put into place by their predecessors with few questions. Blind acceptance is particularly the case when a CEO has never reported to a board before (with the assumption being that board members were smart enough to hire me, therefore they must know what they're doing).

Most CEOs would rank assessment of the management team as a top priority during the first 100 days. We believe a candid assessment of the board and its processes should carry equal weight during this time. Working with a boss to understand expectations when taking on a new job is something any CEO would recommend to a subordinate. Likewise, we recommend it for a CEO who inherits a board.

- » As soon as possible, meet one-on-one with each director. Ask about their backgrounds, what motivates them to be on the board, what they believe they've contributed, whether they're happy with their committee assignment and what changes they'd like to see you make.
- » Develop a board profile, examining the skills and experience of each board member, their tenure, age and diversity. Is this the board you would want if starting from scratch? If not, what's missing? What changes can be made in the near term? In the longer term?
- » Review a schedule of board retirements. What turnover is expected when? What skills will be lost and how will this turnover affect the culture of the board?
- » Review agendas of past board meetings to determine the types of issues your predecessor shared with the board.
- » Meet with members of your senior team who interface with the board on a regular basis. Ask them how much time they are spending preparing for board meetings or providing materials to directors. What do they believe has worked well for the board in the past and what changes would they like to see?
- » When meeting the chairs of board committees, ask them what their objectives are for the year. Are they satisfied with the current committee membership and do directors attend committee meetings regularly?
- » When meeting with the corporate secretary, ask to see an annual board calendar. Review what issues need to be considered by the board at each meeting. Is your board focused on issues that matter?
- » Finally, after your first board meeting, meet with the board chair or lead director and discuss your impressions. Agree on what went well and what you can agree to change for the next meeting.

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