NANO TOOLS FOR LEADERS®

CHOOSING A NEW BOARD LEADER: EIGHT QUESTIONS

Nano Tools for Leaders® are fast, effective leadership tools that you can learn and start using in less than 15 minutes—with the potential to significantly impact your success as a leader and the engagement and productivity of the people you lead.

THE GOAL

Improve leadership selection by using a thorough and deliberate process.

NANO TOOL

Leadership from today's corporate boards is more vital—and more visible—than ever. Directors are responsible for navigating the organization in a hyper-political landscape; responding to activist shareholders, large investors, concerned employees, community members, and other stakeholders; and ensuring diversity in their organizations as well as their own ranks.

Our experience (the four of us have interacted with well over a fifth of the governing boards of the Fortune 1000) indicates that many boards may not have enough clarity on their roles and responsibilities. What's needed is a deliberate process for selecting new leaders to help them achieve their goals. Using the eight questions we developed will help ensure boards are applying the same rigor and analysis in selecting the right board leader as they would for a new chief executive. After all, the success of the CEO and the company have increasingly come to depend on it.

ACTION STEPS

The following eight questions for current directors are based on interviews with more than two dozen directors and executives who are leading or have led some of America's best boards. Use them to guide your search for a new board leader.

1. **Are we aligned on the qualities we're looking for?** Boards should be searching for someone who can maintain a collegial yet objective relationship with the CEO that is built on trust; with relevant strategic experience to help guide the company in the right direction; and with the courage to challenge management and the board when appropriate and encourage the same of other directors.
2. **How active should the CEO be in the selection process?** Because the chief executive will be working with the new board leader on a regular basis, making many of the key decisions on strategy and talent together, he or she should be involved in identifying and interviewing candidates for board leader and vetting and picking the finalists.
3. **Are the CEO and board leader clear on their respective roles?** If the board leader's role is not defined clearly, a host of operational problems could arise, including a wedge between the board and the CEO or the board second guessing the CEO. We know of several companies where activist investors have texted the non-executive chair in hope of opening a separate channel to the top.

4. **Has the board agreed on the right capabilities for a board leader?** As boards become increasingly diverse, a board leader needs to have the emotional intelligence and persuasive skills to collect and interpret multiple points of view from the directors and then deliver them to the CEO in a cohesive and comprehensive manner. Another concern is whether the leader should have CEO experience. As the number of active or former CEOs chosen for board seats continues its dramatic decline, we believe CEO experience is an increasingly important asset.
5. **What will we do if multiple directors are interested in the board leadership role?** Having two or more directors competing for the lead job can be awkward. One step boards can put into place in advance of selecting a new leader is to ask directors to complete a survey in which they identify the three or four directors that the board could not live without. If those raising their own hands haven't been mentioned, they are unlikely to be board-leader material.
6. **How much should we pay the board leader?** The work of a board leader often imposes at least twice the time burden faced by other directors, which can tempt boards to pay their leader significantly more than other directors. While every company has its own history and pay practices, the directors we interviewed advised against this, because it could create the appearance of a two-tiered board. However, the board might want to establish a process for a special equity grant contingent on certain goals or left to the discretion of the board when a lead director performs extremely well—for example, helping the CEO through a crisis, successfully leading a succession, or guiding a major acquisition.
7. **Should we set term limits?** There's been an ongoing debate over whether lead directors should have term limits. Among the S&P 500 in 2022, lead directors had on average served 4.4 years. Our conversations suggest that term renewals should be allowed and term limits are not necessary. Why force a still relatively new board leader to step aside if they're still performing well?
8. **What is the succession plan for our board leadership?** Governing boards ought to recruit more CEOs onto them to ensure a rich pool from which to select a future leader. To that end, the institutional investor community would be wise to revisit the notion that active CEOs be limited to serve on only one outside board. It might well be suitable, for example, to encourage chief executives to sit on more than one board when they are a year or so from retirement.

HOW LEADERS USE IT

When serving as CEO of Tyco International, Edward Breen considered the former chair and CEO of DuPont, Jack Krol, for board leader. Breen asked Krol to write down what he thought his duties should be as lead director, and Breen listed what he believed were his own CEO duties. The two then compared notes and found that they largely complemented one another.

Maggie Wilderotter, former chief executive of two publicly traded companies and a director of many more, applies a "decision rights matrix" that identifies the key responsibilities for the board and CEO and then specifies which are discharged by the directors or the top executive. "For each of these decisions, there is clarity of ownership," she explained. "Who is accountable for the decision, who is consulted, and who is informed?"

Former CEO of Hallmark Ed Hockaday suggests setting a term that can be renewed. When the term is ending, it forces a discussion of how the board is functioning and how well the lead director is engaging. That way, when you have somebody who is good in the job, you don't have to automatically make them step down. On the other hand, if someone is not performing well, this triggers a discussion of whether you want to renew.

CONTRIBUTORS TO THIS NANO TOOL

Dennis Carey, PhD, Vice Chairman of Korn Ferry and co-author of *Boards that Lead* and other books; Ram Charan, advisor to many of the world's top CEOs and corporate boards, and co-author of *Boards That Lead* and other books; Joseph E. Griesedieck, Vice Chairman and Managing Director Board & Chief Executive Officer Services of Korn Ferry; Michael Useem, PhD, Professor Emeritus of Management, The Wharton School, and co-author of *Boards that Lead* and other books. This Nano Tool is based on an article by the authors that first appeared in the *Harvard Business Review*.

ABOUT NANO TOOLS

Nano Tools for Leaders® was conceived and developed by Deb Giffen, MCC, director of Custom Programs at Wharton Executive Education. *Nano Tools for Leaders®* is a collaboration between joint sponsors Wharton Executive Education and Wharton's Center for Leadership and Change Management. This collaboration is led by Professors Michael Useem and John Paul MacDuffie.