



Who's in Charge Here? Re-Engineering the CEO Selection Process

Setting rules of engagement during the CEO selection and hiring process is a way to confirm the board's rightful seat at the head of the table.

We're addressing this issue now because there have been several recent instances in which CEOs have run amok, clearly without the knowledge or support of their boards. With social media as the primary source of news for a large segment of the population, bad behavior isn't even hours old before millions of people – including the company's shareholders – are aware of it and scratching their heads. Those conversant with corporate governance ask themselves "Where was the board while he or she was doing that?" Others just condemn the CEO, and by association, the company.

But while recent blunders by a few CEOs have drawn considerable attention, the issue of independent governance goes deeper and is more subtle. Corporations monitor their own activities in terms of director recruiting, deciding if the CEO should also be the Chair, selecting a lead director, and defining the role the CEO should play in the director selection process. The result has led, in some cases, to a blurring of the distinction between the CEO's responsibilities and the board's, and shareholder activists are noticing.

CEO Selection Process: Setting Boundaries

Given that CEO selection and termination are the board's most critical responsibilities, getting the first part right ensures that the second is seldom needed. The board's best opportunity to clarify its role versus the CEO's is prior to the exit of the incumbent.

Clearly outlining the rules of engagement and developing guidelines and policies for the incoming CEO's relationship with the board are critical. Anticipating fallout from unplanned occurrences needs to be a part of the discussion during the CEO succession planning process as well as during the selection process, regardless of whether the CEO candidates are internal or external. In essence, the board needs to set the rules before the new CEO steps into the role.

Re-engineering the CEO selection process can provide real clarity around the distinction between the CEO's responsibilities and the board's. Issues such as the type of contact individual directors have with management team members, speaking out on social issues, management's latitude on contributing corporate funds to specific charities and many others can be addressed before they become ISSUES.

Better defining accountability, anticipating the influence of social media, and setting a governance agenda in which both the CEO's and board's roles are more clearly stated would go a long way towards assuring a more definitive governance structure.

The Value Alliance and the Corporate Governance Alliance works to strengthen board governance and decision-making in a way that enhances sustainable economic value. Founded in 1999, The Value Alliance has provided education, information, and advisory services to directors and executives from hundreds of companies including large Fortune 500 multinationals as well as smaller entrepreneurial start-ups, both publicly traded and privately held corporations, and both taxable and tax exempt organizations. For more information, please visit www.thevaluealliance.com

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As a thought leader at Boyden since joining the firm in 2001, Tom's contributions have been numerous. His current focus is working with corporate boards of both publicly and privately held companies to recruit CEOs and Directors, with a niche specialty in working with German companies to build their U.S subsidiaries.

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