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To New CEOs, Boards Are Like 'Wild Animals'

Freshman CEOs found it difficult to work with directors

by Amanda Gerut

New CEOs face the universal struggles of getting used to the job, assessing strategy and building strong executive teams. But one of the thorniest — and least expected — challenges faced by first-time CEOs, a report finds, is figuring out how to work effectively with boards without being consumed by the amount of time, care and attention required to get in synch with directors.

Board politics, micromanagement and "energy-sapping" requests from directors soaked up many of the working hours of CEOs in their first year in the corner office, according to "Expect the Unexpected," a study published last week by consulting firm **The River Group**. In interviews, 75 chief executives revealed that they were astonished and drained by the level of difficulty involved in satisfying directors. Many said they subsequently struggled with wanting to expose senior management teams to the board, while also wanting to protect them from board demands that produced scarcely any value to the company.

"I was least prepared for dealing

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Experts Warn Against 'Buyback Blindness'

21 companies bought back shares, destroyed value in 2015

by Tony Chapelle

Last year, **Larry Fink**, CEO of **BlackRock**, the world's largest asset management firm, famously challenged corporate boards in the S&P 500 Index to act as "the first line of defense" on behalf of long-term share owners against short-term pressures.

In February, Fink again wrote to CEOs and accused "many companies" of continuing "to engage in practices that may undermine their ability to invest for the future." He blamed dividends and buybacks as the picks and shovels most often used for the undermining. "We certainly support returning excess cash to shareholders but not at the expense of value-creating investment," Fink explained.

Fink's musings inspired *Agenda* to take a look at why boards' decisions to approve buybacks might contribute to the destruction of shareholder value.

Buybacks do boost stock prices temporarily. The reduced number of shares mathematically dresses up earnings on

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with the board," a CEO anonymously says in the report. "There was no way to be prepared. And I had been on the board!"

Another CEO told the interviewer that dealing with his board was akin to tangling "with a wild animal."

The study is based on interviews with CEOs that have average tenures of 5.3 years, revenues of $3 billion and 8,000 employees. Nearly half (45%) are public company CEOs, and half hail from companies based in North America. Interviewees discussed working with boards and their general thoughts on serving as CEO.

Forging Bonds With Directors

Sandy Lyons, a former four-time CEO who conducted the interviews, says the revelation about dealing with boards was common to nearly every CEO interviewed for the study. The results underscore the difficult task boards face trying to maintain a balance between supporting a CEO and remaining appropriately skeptical. While boards are well intentioned, he says, the intense scrutiny on boards and the pressure to practice good governance and help companies achieve all of its stakeholders' goals can lead to boards' adding to new CEOs' workloads.

Lyons recalls an issue that cropped up repeatedly when he served as the CEO of a joint venture of two European companies. One of the key synergies of the joint venture involved consolidating factories in France and was expected to result in millions of euros in cost reductions. However, when Lyons and his team investigated further, they discovered that French trade and union laws would expand the time frame to complete the consolidation by two and a half years. Lyons reported the findings to the board, and he and the directors agreed that the synergies would be achieved in the expanded time frame. But at the following meeting, the board asked why he hadn't taken advantage of the synergies. Lyons reminded directors of the previous meeting and that the matter was resolved. Two or three meetings later, however, the board asked Lyons to explain why the key synergies hadn't yet been achieved. Again, Lyons repeated that the synergies would be achieved under the expanded time frame.

"It got to the point where at each board meeting, I started the meeting by explaining to everybody why the synergy hadn't been taken," says Lyons. "Literally — and I'm sure that lots of CEOs have experienced this — it is a frustration."

Part of the difficulty is that only a few directors on every board have actually been CEOs, says Lyons, and the rest don't have past experience reporting to a board. Therefore, the majority of directors are often unaware of the hurdles faced by CEOs in reporting to a diverse group of directors with varying opinions and areas of expertise. CEOs have to quickly learn how to orchestrate as much consensus as possible, differentiate between opinion and direction, take the best of the thoughts presented by directors and forge ahead.

That difficulty is compounded by the fact that a first-time CEO faces the added pressure of wanting to build a strong relationship with the board by being responsive. But they often lack the sense of camaraderie that derives from a shared working history that would then allow the CEO to create boundaries and set up a mutually beneficial way of communicating and working with directors.

Meanwhile, boards may not even be aware that the CEO is struggling to balance both the board and learning the ropes of being a CEO, says Lyons.

Candid Conversations

The history between the board and the previous CEO can also color the interactions a new CEO has with a board.

Peter Thies, president of The River Group, consults with a CEO whose natural instinct upon taking the job was to engage the board and dialogue openly with directors on different topics. Conversely, the CEO's predecessor had kept the board at arm's length, which meant that board members hungered for the increased engagement offered by the new CEO. However, the subsequent results were overwhelming.

"The floodgates opened," says Thies. "She didn't realize that, my goodness, they really want to be involved. It's tough."

Some strong but well meaning board members may also change their approach when a new CEO joins a company.

Craig Sullivan, a former director on the boards of **Goodyear Tire & Rubber**, **Kimberly-Clark** and **Mattel**, says some directors who have less experience serving on boards but ample experience in the industry the company is in sometimes dig in too deeply when a new CEO comes aboard. He recalls one incident in which a younger, less experienced director who was an executive from the same industry tended to stray into management's side of things.

"[The director] was too much in the weeds," says Sullivan. "[They] would ask the kinds of questions you might ask if you were the manager of this kind of company." The director is now a CEO, he adds. A remedy to some of these common situations is for CEOs to hold candid conversations with the lead director or board chair as soon as possible, says Lyons. Their aim shouldn't be to get the lead director on the CEO's side, he says, but to make sure that both the board and the CEO are clear about how they want to work together. Lead directors and board chairs, who often previously served as CEOs, can usually help a new CEO understand what they're going to experience from the board and discuss how the board can help the CEO "in the right way," he says.

"Boards and the new CEO have a settling-in process," Lyons says.

The early days are important, CEOs and experts agree, because the board can send powerful signals to new CEOs that can start them in a positive direction.

Working With the Board

Sullivan, former chairman and CEO of **The Clorox Company**, recalls that he was promoted to CEO over the incumbent chief operating officer, which was unusual. However, his first interaction with the board signaled directors' confidence in him, and he says it set the tone for his 11 years with the company.

Sullivan wanted to make major changes to the management team, which would leave the company with about half as many executive officers. Sullivan knew the executives weren't aligned with him, and he wouldn't have been able to advance his agenda if they stayed at the company. The general counsel suggested a private meeting with the independent directors.

Nervously, Sullivan made a presentation showing the current organizational chart and a chart with the proposed changes. The directors didn't try to stop him or nitpick, and Sullivan says it dawned on him that he would be able to move forward with his agenda with the board's full support.

"It was a very freeing experience," he says. Indeed, knowing what to expect from the board can help a new CEO view the board as an asset rather than a challenge.

Dave Brandon, chairman and CEO at **Toys "R" Us** and former chairman and CEO at **Domino's Pizza**, says that he spent years working on succession planning at Domino's before retiring from the CEO position. Part of his job in the years before he left was helping his successor, **Patrick Doyle**, understand the dynamics of the board and form relationships with individual directors.

"We actually made him a member of the board and gave him that opportunity when he was still COO of the company to be part of the boardroom dynamics for a period of time before he transitioned to the CEO job," says Brandon, who is still Domino's chairman. "To me that's an appropriate and important part of succession planning."

Similarly, **Steve Sanger**, former chairman and CEO of **General Mills**, says that when he became a CEO he had attended board meetings and had observed his predecessor as CEO and his interactions with the board for at least five years. Sanger knew what directors liked and disliked about the way the CEO interacted. He also knew he could expect certain reactions from some directors and different reactions from others.

Sanger says adjusting to working with the board took time, but he expected that it would. He adds that the boards he's worked with then, and since, have been high-performing.

"If you've got a cohesive and collegial board, it's easier than if you don't," says Sanger, who is a director on the boards of **Pfizer** and **Wells Fargo**.

He adds, however, that the amount of communication between board members and chief executives has increased vastly since he was a CEO and boards expect to spend more time discussing issues than they did back then. The change is a good thing, he says, and CEOs who are more engaging are more trusted by directors and tend to have better relationships with their boards over time. ■

Amanda Gerut (212-542-1246 or agerut@AgendaWeek.com) covers succession planning, board composition and director pay.

What the CEOs Said

In interviews, CEOs revealed their thoughts about the challenges of working with boards.

- "How much time you need to spend with the board was a surprise to me ... You need to be constantly looping back."
- "I really had to get a grip on the relationships among board members and between board members and staff members. I needed to know who was talking to whom."
- "I had always reported to one person. At first, I thought of the board in that way then realized I was actually reporting to 11 people."
- "Dealing with politics is a constant ... I had to learn diplomatic skills in the face of some bad behavior."

Source: The River Group