AGENDA

THE WEEK'S NEWS FROM OTHER BOARDROOMS

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Happy Fourth of July

Agenda will publish only online next week because of the July 4th holiday. Our next print issue will be July 11.

Internal CEO Hires Need More Help, Not Less

Chief execs require more than the promise of an 'open door'

by Amanda Gerut

An internally developed CEO knows the strategy, understands company culture and is well-known to directors following the succession process. Consequently, boards often give homegrown, first-time CEOs a wide berth, telling them that directors' doors are always open. But an open door may not be enough.

A study published last month by **The River Group** found that new CEOs ranked their level of preparedness on the first day at 7.2 on a scale of 1 to 10. After six months in the job, however, CEOs rated their preparedness at 3.5. The study is based on interviews with 75 CEOs. Similarly, a 2012 study conducted by **RHR International** found that half of the 22 CEOs interviewed described their transition into the role as "challenging" and occasionally "chaotic." Many found themselves misaligned with the board on strategy and performance after several months in the role. In addition, a majority said they expected more support from the board during those first months on the job.

The research also found that first-

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Say-On-Pay Failure Rates Remain Low

Support for chair and comp committee falls after failed votes

by Gavin Pierce

In early May, when 11 companies had rejected their boards' pay plans, governance observers were wondering if 2016 would be the first year there would be a significant rise in failed say-on-pay votes. The say-on-pay vote failure rate stood at 3% for the year at that point, and the 11 rejections heading into May were the most that early in the calendar since say-on-pay votes began in 2011.

However, as June reports on say-on-pay started to come in, concerns over high numbers of companies' having their pay plans rejected subsided. **Semler Brossy**'s June report on say-on-pay shows that 25 Russell 3000 companies experienced failed say-on-pay votes; by contrast, there were 34 failed votes at the same time last June.

Todd Sirras, Semler Brossy's managing director of compensation, says the say-on-pay failure rate in June was about 1.5%, which is the lowest level since the firm starting tracking

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time CEOs often felt isolated and unable to decide on a course of action early in their tenure, a time when companies are energized by a CEO transition and open to change driven by a new leader. The findings suggest that boards, while seeking not to hover over new CEOs, may be taking too much of a hands-off approach when their new leaders are still learning how to be chief executives.

"It's clear to us that there's an opportunity for boards to make the CEO more successful by removing some of the parts of becoming a CEO that are most destabilizing," says **Peter Thies**, president of The River Group.

Yet, experts agree that the solution isn't as simple as boards' providing more support to new CEOs in the way of a director liaison or additional mentorship because, paradoxically, new CEOs often find working with the board itself a major challenge, as *Agenda* has reported. Still, directors and advisors say there are practices new CEOs and boards can engage in that can help first-time CEOs flourish in the first year on the job. One-on-one meetings, executive sessions and a frank discussion about expectations and how to communicate can help a first-time CEO adapt to the role.

Dominique Trempont, the former CEO of three companies and a director on the boards of **Daily Mail and General Trust**, **Energy Recovery**, **On24** and **RealNetworks**, says new CEOs often assume the role with great confidence only to discover "there are a great many things they don't know." Learning to constantly test their assumptions about the business by talking with employees and allowing themselves to be proven wrong is an important lesson for CEOs to learn, he says. But it can also be jarring for a new CEO to discover that they don't know as much as they thought they did, Trempont says.

Joshua Ehrlich, chairman of the **Global Leadership Council** and a CEO and executive coach, adds that some new CEOs go back to doing the job that they did before they became CEO. It's familiar, and some executives think no one can do their old job as well as they did.

Meanwhile, the company can revert back to business as usual if the new CEO doesn't start moving forward on two or three high-priority issues, as a 2013 CEO study, "Move Faster Drive Harder," co-authored by consultant **Mark Nadler**, found.

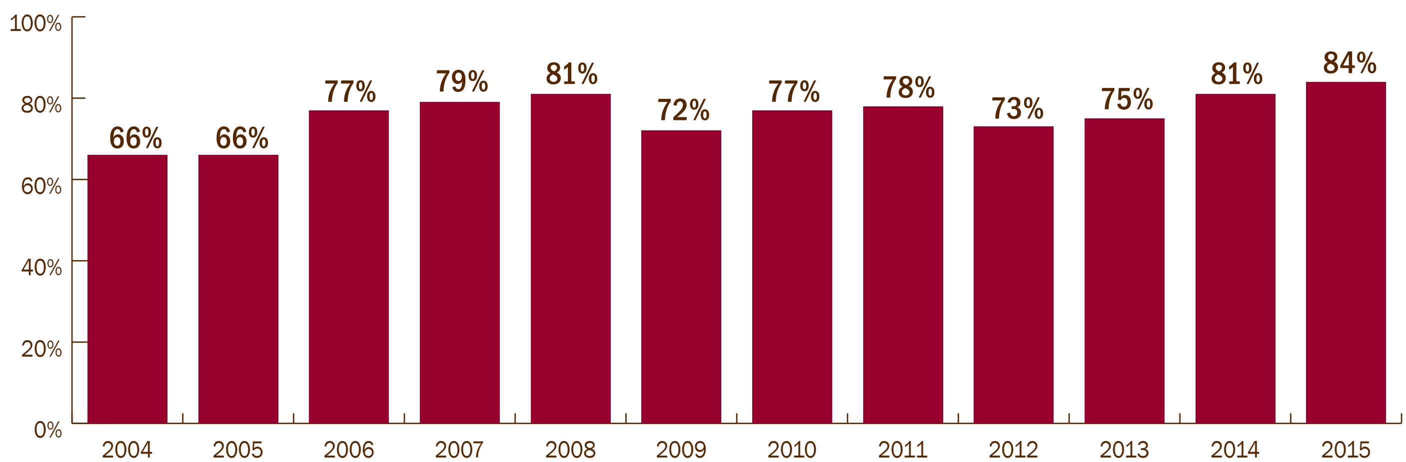
Working With the Board

Ron Williams, former chairman and CEO at **Aetna** and a director on the boards of **American Express**, **Boeing** and **Johnson & Johnson**, says every company has its own unique circumstances, but typically, internally promoted CEOs understand the business, investor community and their role as the spokesperson for the company. What new CEOs don't usually understand, he says, is how to work with the board.

One-on-one meetings between the CEO and individual directors on directors' home turf can go a long way toward helping new CEOs understand the finesse and behind-the-

More Boards Grow Their Own

Internal CEO placements among S&P 500 Companies



Source: Spencer Stuart

scenes work that may be needed between board meetings. One-on-ones may be viewed as redundant when a CEO is promoted from within because similar meetings often took place before the board decided to hire them as CEO. But those past meetings were usually intended to help a director get to know the C-suite executive. After a transition to CEO, the new chief executive needs to get to know individual board members, their areas of expertise and what they think the new CEO should prioritize.

As a CEO, "sometimes you'll have 12 voices coming at you on some issues," says Williams. "You want to be certain you can hear with fidelity what each person is saying so you can advise the board on what you think is the right course of action."

In addition, executive sessions with the CEO and directors present can also be a port in the storm for new CEOs that don't want to appear to be struggling during a full board meeting with various members of junior and senior management present.

Nadler, principal and co-founder of **Nadler Advisory Services**, says some boards and CEOs don't take advantage of having an executive session of just the CEO and directors.

"Early on in a CEO's tenure it's a terrific way for them to talk candidly and get aligned," Nadler says. "It's like a cast of thousands in some board meetings — the walls are lined with chairs filled with people from management. It completely changes the dynamic of the meeting and becomes much more formal."

Talk and Talk and Talk Again

In addition to one-on-one meetings and executive sessions, a frank discussion about the role of the CEO and board chair or lead director and regular communication between the board and CEO can help clarify expectations among the CEO and the board.

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>
> **Dave Maness**
> Chairman, Isabella Bank

Dave Maness, chairman of **Isabella Bank**, says a CEO transition doesn't involve just one new hire. For example, the bank hired CEO **Jae Evans** in January 2014 after an internal succession process involving Evans and another executive who remained with the company following the process. Former CEO **Richard Barz** also remains as a director on the board. Therefore, the new CEO transitioned into the role, the board transitioned from having a veteran, successful CEO to being led by a first-timer, and Barz transitioned out of the CEO role and onto the board as a rank-and-file director. Isabella Bank appears as a successful succession case study in a recently published book, *The Handbook of Board Governance*.

Maness says the full board, including Evans and Barz, discussed the pros and cons of Barz's remaining as a director and ultimately decided it was a benefit to the board and company for him to remain, given his 41 years with the bank. However, Maness says the board also held several discussions about how Evans's and Barz's roles would function. They also discussed Maness's relationship with Evans.

"We talked about the fact that there were multiple transitions, and I talked with Rick and I talked with Jae and I talked with the board," says Maness. "We talked about it and talked about it … a lot."

New Roles and Relationships

Paul Winum, senior partner and practice leader in board and CEO services at RHR International, says internal successions require "a significant recasting of role relationships between the CEO and the board and between the CEO and the other members of the senior management team who formerly were peers and now become subordinates."

Even after all the conversations, during the first year, as Evans worked on the company's strategic plan and put his own stamp on it, Maness says he paid close attention to how things were going.

"Certainly for the first year or so we were very sensitive to it," he says. "When a subject came up, where did everybody's head pivot? To the new guy or the old guy?"

Barz even moved his seat during board meetings. Typically Maness sits with the company CFO to his right, and the CEO to his left. Now that Evans is CEO, he sits to Maness's left.

"We actively talked about where Rick was going to sit," says Maness. "When he came in [to the boardroom] he had a new seat at the table — literally." ■

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