

## **Answering the Board's Ultimate Question: Do We Have the Right CEO?**

The three most important responsibilities for boards of directors in publicly traded companies are to ensure the organization has the right leadership, succession plan, and strategy in place. In order to fulfill their fiduciary responsibilities to shareholders, customers, and employees, boards must consistently consider and address three critical questions: 1. Do we have the right CEO? 2. Do we have an effective succession plan? 3. Do we have the right strategy? While challenging under any circumstances, the board's ability to address these questions has been significantly impacted by the growing list of new governance expectations and requirements including the intense focus on the compensation committee and issues, Sarbanes-Oxley, risk assessment and the like.

Of these three crucial questions, the most important is ensuring that the right CEO is leading the organization. The price for failed leadership at the CEO-level has been estimated by some to be almost incalculable. Regardless of the size of the organization, one person can have a dramatically negative impact on performance.

The challenge for boards, however, is complicated and often subtle. Unless there is a clear failure of leadership, it can be difficult to determine if, in fact, you do or do not have the right CEO. As history demonstrates, you're never quite as good as your numbers or as bad. Moreover, there are numerous best practices and methodologies for developing effective succession and strategic plans. Determining if you have the right CEO at the right time is much more challenging; as much art as science.

How does a board fulfill its most important obligation and responsibility to ensure it has the right CEO leading the organization? There are numerous occasions throughout the year that provide opportunities for observation and assessment. During these interactions, directors should pay careful attention to the interpersonal dynamics between the CEO and his or her team, as well as the dynamics between the CEO and the board. Taken together, they provide a solid basis for assessing CEO performance, and they follow in no particular order of importance:

- Formal meetings, including the organization and conduct of the board meetings and committee reports
- Informal settings, such as dinners and social occasions, often provide ample opportunities to observe leadership and organizational dynamics
- Key personnel decisions, and the quality and candor of the interaction between the CEO and his or her direct reports
- Key business decisions and actions, and staying apprised of changes in strategy development and implementation
- Listening to the quarterly earnings conference calls
- Comparative Financial Results
- The lead director facilitating candid and open discussions in executive session

And what about when the board realizes that you do not have the right CEO? From the board's point of view, developing one or more internal candidates from inside the organization to succeed the CEO is clearly preferable. Research demonstrates that when a board has sufficient experience in working with, and observing, potential internal CEO successors, the probability for success with the right internal replacement is significantly higher than replacing the CEO with an external candidate.

There are times when the right successor may not reside within the organization and as such, the board must look outside for their candidate. Whatever external search tactic is adopted, it is crucial that the lead director or non-executive chairman work openly and inclusively with the other board members to ensure the full board is engaged and participating constructively in the process.

For these efforts to be effective, boards must have an open, candid, and dynamic culture. Boards must develop the capacity to learn, adapt, question and challenge, all while maintaining a positive climate grounded in trust and mutual respect. When these elements are in place, boards operate as high-functioning teams where synergy and collegial candor will more often lead to thoughtful deliberation and optimal decision-making.

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