

The CEO Forum

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Quick and Dirty

An Express Board Director Evaluation



By Nancy May, President and CEO of BoardBench Companies

As Chairman of the Board, you hold a lot of power and carry more responsibilities on your shoulders than any other director. One of these is to ensure that each Director, and the Board as a whole, is up to the job at hand. Oversight of the company's success is rightfully the obligation of the entire board. Yet, evaluating and ensuring that the right people sit at the table really comes down to the Chairman, even if most of the work is delegated to the Nominating/Governance Committee.

A director peer evaluation, for many directors among the large number I know, makes them break out in a cold sweat. Another little-known fact is that many boards use director evaluations to collect the evidence they need to remove an underperforming or poorly behaving colleague. It's no wonder that board assessments evoke discomfort, even fear, among the best directors. At the least, the process is viewed, in most circles, as a total nuisance. This may explain why few chairmen or committees regularly carry out the process, if at all. Most who choose to do a peer evaluation properly farm it out.

Now, a number of you chairmen may suspect that you have a problem with a director's competency or even wonder whether the board is dealing with issues properly. You may think you have little time to conduct a full blown director and/or board evaluation, yet you need some fast answers. If so, I suggest a quick and dirty, but revealing, exercise. You can do a short but effective evaluation of your peers with one fast interview using just three questions. The answers to these questions, taken separately, or as a whole, can show whether there is a need to tune the piano, rebalance the board, or make wholesale changes to what the board is doing.

The better part is that you can complete this process in an afternoon.

The first question to ask each director is:

Can you explain to me, simply, the strategy of this company?

If a director truly understands the strategy, has been involved with its shaping, and has given it some serious thought, he/she should be able to lay it out in terms that anyone could comprehend. This understanding is important, because the company's strategy should be the template against which every director's considerations and deliberations are conducted for the betterment of the company. The board has an absolute responsibility for helping to shape and oversee the execution of a company's strategy. Strategy is important to the firm's welfare, which boards are entirely concerned about. Thus it stands to reason that every Director should know the answer to this cold!

The second question to ask:

Looking at our last Consolidated Statements of Cash Flows, what issues do you see that exist, or that may arise, for this company?

All directors, to be considered competent these days, need to be financially literate. A company's welfare is dependent on its finances and defined by its financial statements. You can't deliberate and make sound decisions about things that you don't understand. Being able to interpret and analyze all of the company's financial

statements is what constitutes financial literacy. The Consolidated Statements of Cash Flows is, to me, the most difficult to master among the various financial reports. If you've got this down, analyzing everything else should be easier. The answers to this question can give a quick snapshot of the director's aptitude in this area. All your directors should be financially literate to be considered competent. And all directors should be competent — no exceptions.

The last question to ask:

What are the strengths, weaknesses, and character of each member of the Senior Management Team?

A major duty of Boards is to hire and evaluate a CEO. No CEO is so talented that he/she can manage the company alone. How a CEO staffs, monitors, and manages his/her top team is a window into what the CEO is doing. No matter how charismatic, knowledgeable, energetic, or personally inspiring a CEO may be, a company that has a weak senior management team, or even a broken link in the team, is one in which things will rarely, in the long run, turn out well. Board members should have sound opinions on each member of the Senior Management team, derived from their own personal observations and interactions with each executive. Character is not so easy to assess, but it offers some insight into how a person may act under pressure. Each director must give serious thought to this aspect of each senior executive. This understanding is important for directors to have on hand when CEO evaluation time rolls around — actually, it's better to always have this knowledge. The answers to this question, may not only reveal what the director thinks, they may also uncover perspectives that other directors may not have observed about the management team.

What to do?

Okay, you've asked and gotten your answers. What now? That is up to you — somewhat. You, as Chairman, have to lead the board and be guided by what's best for the company. Some directors are going to ace all those questions. Many are going to give passable answers. Some may totally flub. If one or two directors seem pretty much lost, it is probably time to consider rehabilitation

or recycling. Some directors will grasp the obvious, focus, and take the opportunity to up their game. Some will need to be offered a graceful (but firm) opportunity to exit.

If several but not the majority of directors “fail” the interview, this may indicate that both director training and full board in-depth discussions on strategy, finances, and company leadership need to be more frequent parts of the agenda — not just once a year or in committees. If the majority of directors totally blow these questions, some serious discussions around what directors know and how they are doing things should be brought front and center — and quickly.

As a caveat, you as the interviewer and Chairman, should not be asking any of these questions if you don't already have a solid grasp of the answers. As a responsible Chairman, you should not hesitate to go through a process like this.

Of course, an evaluation this brief will not shed light on many of the other aptitudes, attributes, and attitudes of board members that might need to be assessed at some point. Nor does it focus on all the key responsibilities of any given board. And, it shouldn't be seen as a substitute for a full peer-to-peer or 360 director evaluation. It can, however, reveal a lot about your fellow directors.

Asking these questions may not be comfortable. Making hard decisions based on the answers will also not be easy. But I didn't say this process would be comfortable or easy — I said it would be quick and dirty. In the overall scheme of things, the results of this process may come as a revelation and a starting point for something deeper.

If you want to painlessly dive deeper into the subject, give me a call.

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