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How to Choose The Right Non-Executive Board Leaders

Ever since listing requirements prompted many U.S. companies to name a non-executive director to serve as the chairman, lead director or presiding director of the board, these companies have been grappling with what, exactly, this board leader should do and how to find the right person for the job.

The change in governance followed corporate scandals (in the early part of the decade) that led to investor pressures to strengthen corporate governance by separating the roles of chief executive officer and chairman. This separation represented a step into the unknown, because the CEO traditionally served as chairman in most U.S. companies and was the board's undisputed leader. The combined role of CEO and chairman is still very common, but the governance structure at most Fortune 100 companies has now been complemented by a presiding or lead director, who plays a substantial role in leading the board's work.

To examine how the new board leader role has evolved, and the best practices for appointing one, we invited 11 current and former board leaders of large U.S. companies to share their views and experiences. One of their insights was that there is little difference in how their companies utilize the board leader whether the organization refers to that person as a presiding or lead director or as a nonexecutive chairman, although a few interviewees saw the latter title as having more importance symbolically. These board leaders spoke of a role that has grown beyond mandated process requirements, to carry a more substantive meaning for the creation of corporate value. At many leading companies today, the board leader is a real partner of the CEO on strategy issues and has taken over or partnered with the CEO on some functions the chief executive has historically led, such as setting board agendas, recruiting new directors, and more aggressively assessing risk.

Our panel also noted how the process of selecting a board leader has been evolving from an unstructured and haphazard approach toward one that should ideally resemble the best practices for CEO succession. The board leaders we interviewed agreed, without exception, that good board succession planning starts with producing a formal document that specifies the duties and the personal characteristics the board leader should have, even though they may change over time. This document could also be used for evaluating the board leader from time to time.

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Based on our interviews and experience of serving on corporate boards, we believe that the leader’s duties should ideally include chairing executive sessions, board meetings in the absence of the chairman (when the CEO has that role, too) and meetings of the independent directors when necessary, as well as presiding over the board evaluation process to ensure that the board functions effectively. The duties should also involve frequent cooperation with the CEO in communicating with shareholders and external stakeholders, working with board committee chairmen (for example, on the CEO’s evaluation and compensation), and acting as a liaison between the board and management. What’s more, the board leader should ensure that a succession plan is in place for the CEO and the board leader, as well as work in partnership with the CEO on strategy issues.

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