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How to choose the right nonexecutive board leader

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It’s time to use a structured process for selecting the nonexecutive leader of the board. Defining the role is a good start.

Ever since stock-listing requirements prompted many US companies to name an independent 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 CEO and chairman. This separation represented a step into the unknown, because the CEO traditionally served as chairman in most US 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[1] 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 US companies to share their views and experiences (see sidebar, “Who’s who”). 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.

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.

Every one of the interviewees emphasized the need for close collaboration and trusted communication with the CEO and fellow directors to help the board navigate the challenges of a complex business environment and to focus boardroom discussions on strategy and overall value creation. Some interviewees discussed the need for the board leader to facilitate the evaluation of the board's performance and, if needed, to deal with problem directors. Most interviewees believed that "firing a director" should be a process led by the board leader, based on peer- and/or self-assessments.

Given the focus on meetings and conversations, many directors in our panel stressed that the board leader must be a superb facilitator. "A skilled board leader can wring a lot out of these discussions," said Jim Cullen, the lead director of Johnson & Johnson and nonexecutive chairman of Agilent Technologies. And this function "lies at the heart of what a board leader can bring to the governance process and to the successful strategic momentum of the business." Doing one's homework on the business is also key. "You have to stay current [and] understand the priorities of the business, the strategy, and the direction of the business, especially if you are going to have candid one-on-one discussions with the CEO," Cullen said.

When Jack Krol became the lead director at Tyco International, in 2003, he developed, in conjunction with CEO Edward Breen, a document specifying his own role. With input from the board, the governance committee then developed some general characteristics of the role for whoever would succeed Krol in the future. Krol said three competencies or characteristics were deemed most critical.

First, Krol said, “the ideal candidate has to have stature with the other directors and be seen as a leader in the boardroom.” Krol also noted that “the ideal board leader is an engaged and thoughtful director. This candidate adds value during board deliberations, with significant comments when compared to others who may talk more but, over time, indicate a lack of substance”—adding that “you just know it when you see it.” Second, “the candidate must have compatibility with the CEO as well as good chemistry, and the person should not be adversarial.” Third, “the candidate must express interest and have the time to do the job.” Krol added, “at Tyco I was involved nearly every day for a year during the crisis, either at a company location or on the phone.” (Krol was referring to Tyco’s 2002 financial woes, which were compounded by accounting scandals involving its former CEO L. Dennis Kozlowski.) Indeed, many of the directors we interviewed underlined that boards should select leaders with the assumption that at some stage during their tenure, the company would be under some form of stress or in a crisis.

Advance planning and a well-vetted description of the role were essential when Krol recently handed over the reins as lead director to fellow Tyco International director Bruce Gordon. Krol, now nonexecutive chairman of Delphi, knew the stakes were high. If he and Tyco International’s board hadn’t found a successor capable of carrying on the dynamic created by the board and CEO Edward Breen, that failure might have unraveled years of progress in transforming the company’s governance in the eyes of shareholders and employees alike. The process was conducted over several months. The governance committee developed a list of three Tyco directors who best met the selection criteria and then conducted discussions, led by Krol, with each candidate and the CEO. Ultimately, an executive session of the board made the selection, based on the committee’s recommendation. The process, not unlike one that should be used to evaluate inside candidates for the job of CEO, enabled the board to engage in a thoughtful, well-paced process to arrive at the right answer.

The smooth succession at Tyco exemplifies best rather than common practice. Few of the companies in our sample had a formal specification for the board leader position when the time came to pass the baton, but all believed that such a specification should be created for the next “baton pass.” We find there is an increasing number of companies whose board leader says his or her board intends to develop a better profile of the ideal leader and then goes after the right candidate based on the formal specification rather than requiring candidates to compete with only nebulous criteria as their guide.

The old method of picking a successor wouldn’t stand up in today’s governance environment, noted Harold A. (“Hap”) Wagner, who was lead director at United Technologies for five years. Wagner recalls that when it was time for him to step down, in 2008, there was no document specifying the criteria for the selection of his successor. “Today, the position of lead director has been much more magnified,” he said. “I suspect that there is a specification now for lead director at UTC, and, if not, there should be.”

The board leader role has come a long way and is still evolving. What works best for one company may not necessarily fit another, because of varying degrees of business success, different cultures, and unique personal chemistry on the board. However, the common themes and recommendations uncovered by our research might help to shape the outlook of all boards when the time comes to pick a new board leader.

1. According to *Agenda*'s 2009 board leadership guide, of the 96 Fortune 100 public companies included in the research, 43.8 percent had a presiding director and 37.5 percent a lead director. The most common governance structure in the largest US companies combined the positions of chairman and CEO and complemented this with a presiding director. For more, see agendaweek.com.

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