The Chief Executive Officer

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§1 Introduction

The main member of the executive team, and the person with the most responsibility for, and control over, the organizational design of the company, is the chief executive officer, or "CEO." While the CEO "reports" to the board of directors and the board of directors is vested with more legal authority than any officer of the company, including the CEO, it is the CEO to whom the directors turn for leadership in setting strategy and putting the assets and other resources of the company to work in order to achieve the stated goals and objectives of the company. The CEO is almost always a member of the board of directors and, until recently, the common practice among larger corporations (i.e., "public companies") was for the CEO to also serve as the chairperson of the board of directors. While it is now the general rule that public companies, as well as many larger privately-held companies, will fill a majority of the seats on the board of directors with outsiders (i.e., non-employees and persons who do not represent a large shareholder block) it is nonetheless still true that the CEO exerts significant influence over the board of directors even in those circumstances.

The discussion below distinguishes between the CEO of an emerging company, which is a business that is just starting out and is focused on specific activities needed to ensure long-term viability such as acquiring needed resources and developing and launching its initial products[1], and the CEO of a public company that has generally achieved some level of stability and market presence while remaining vulnerable to changes in the broader business environment. Many of the basic duties and responsibilities of the CEO remain the same regardless of the size of the company and its stage of development; however, successfully steering an emerging company into the marketplace does not necessarily mean that the CEO will thrive as the leader of a public company nor is it always the case that a CEO of a large multi-national firm can seamlessly take over the reins of a new business. As the company grows the CEO must be able to appreciate the need for more formal planning and creation of internal controls and must be prepared to delegate authority in many areas to the members of the executive team that the CEO is responsible for recruiting and managing. In addition, the CEO of an emerging company, often a member of the founding group, must be willing to change his or her style of leadership to facilitate greater participation by other executive team members and key managers at lower levels of an increasingly taller organizational hierarchy. Finally, as the company expands the CEO will need to invest more time in building and maintaining relationships with new stakeholders including vendors, customers, investors and

[1] For detailed discussion of emerging companies and the challenges confronting them and the members of their executive team, see "Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

journalists and will need to focus on new issues such as financial reporting and accounting practices, risk management and globalization.

§2 Information gathering for the new CEO

Before someone decides to join a company as the CEO he or she should conduct a thorough due diligence investigation of the company including its business model; its reputation with customers, vendors and other key stakeholders; and it current strategies, goals and internal controls and procedures. During the course of the investigation the prospective CEO should obtain as much information as possible about the company so that he or she can make an informed decision about the position and also be ready to make a contribution as quickly as possible after beginning the new assignment. Due diligence includes a variety of activities including a review of documents that describe the company's business and financial condition (e.g., filings with the Securities and Exchange Commission in the case of a public company and business plans and investor reports in the case of a private company); a review of the company's charter documents, material contracts and policies and procedures; and interviews with outside directors, professional advisors and the leaders of the various departments and divisions of the company.[2]

Once the new CEO has had an opportunity to collect, review and evaluate the information included in the initial set of documents, he or she should turn to interviews with other key members of the management team and detailed assessment of several important topics. While the documents provided to the CEO during the due diligence phase should include job descriptions for department heads as well as an overview of the organization and operational activities of each department the CEO should meet with the top of manager of each functional and business unit to begin to form his or her own independent opinion of the skills and talents of those persons and the manner in which they oversee and manage their units. Among other things, the CEO should ask the other managers about any specific issues or problems they are confronting within the organization and in relations with external parties. For example, the senior manager of the sales group may feel that the customer service department is not providing adequate support for certain important accounts. If that is the case the CEO may need to intervene and attempt to smooth relations between the two units and assist them in develop a process to work together in a way that suits both of their goals and objectives and improves the customer's experience with the company from the time the first contact is made by sales through the entire post-sale service and support period. In the accounting area the discussion should cover important accounting and tax issues facing the company as well as the content and strength of accounting-related policies and procedures including internal controls and audit procedures. With regard to external relations, the CEO may find that the manufacturing unit needs to reconfigure its supplier network in order to control the costs of procuring raw materials and ensure that components are

[2] For further discussion of this process, see "Compliance and Risk Management: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

available on a timely basis to fulfill sales orders. In that situation the CEO will need to work with the senior management of the procurement and manufacturing units to develop and implement an appropriate vendor relations strategy. The initial goal of these discussions is to determine how the CEO, through his or her oversight of the parent unit resources, can immediately assist and support the functional and business units. In addition, however, the CEO should collect feedback on issues or problems that are likely to arise in the future so they can be factored into the long-term business planning process.

As the CEO conducts the meetings with the department heads he or she should focus on certain core topics and on learning more about how the company, through its managers, actually operates. For example, the CEO needs to go beyond the documents to independently learn about the business of the company, including policies and practices regarding revenue recognition; the elements of revenue and expense for each product line, especially gross margins; any relevant accounting or tax issues that are likely to have an impact on the company or the industry segments in which the company competes; the content and strength of the company's technology portfolio; and the position of the company vis-à-vis competitors in each of the company's market segments. When discussing issues such as revenue recognition the CEO should ask about customary practice in the industry and determine whether company practices are consistent with those used by competitors. It is also useful for the CEO to learn as much as possible about the details of how the company's products are developed, manufactured, distributed, sold and supported. This usually means actual observation of the manufacturing process and attendance at sales presentations. The CEO should also watch how employees go about their day-to-day activities and, most importantly, how their managers interact with them in communicating directions and information regarding the company and the specific tasks and duties that are being assigned to the employees. If possible, the CEO should meet with small groups of employees from several departments to hear first-hand how they feel about the company, their managers and the challenges they are facing on a daily basis.

The CEO should not ignore the fact that the meetings with senior managers and other department heads will likely be stressful for the other party given that they will naturally have anxieties regarding how the new CEO intends to run the business and the decision that he or she might make regarding the their future with the company. It is generally expected that the CEO will make important personnel decisions within 60 to 90 days after assuming the position and a major consideration will obviously be the type of first impression that is made by other executives and managers. Each CEO has his or her own personal style for dealing with people and this will be evidenced in the way that the CEO conducts the meetings. In order for the CEO to gather the most useful information for making personnel decisions and changes in the organizational structure of the company it is best if the CEO is willing to listen closely to ideas and concerns of each executive and manager and honestly receive and evaluate the plans that are put forward for executing the strategic goals and objectives set by the CEO. The CEO should be also be prepared to inform everyone about his or her style of conducting business and the agenda he intends to set for making the company successful. While most of the conversation should focus on the future it is useful for the CEO to inquire about how certain decisions regarding a specific business unit were made in the past and how the parties may work together on changing the way the unit is managed in order to fit with the priorities and goals of the new CEO.

In addition to the internal meetings with department heads and employees the CEO should also speak directly with representatives of the key stakeholders in the company's organizational domain and the outside professional advisors to the company. For example, the CEO should visit with several of the company's largest customers to determine how they see the sales process and the support that is provided by the company. During those meetings the CEO should elicit opinions from the customer as to how they see their relationship with the company evolving in the future. Information gathered from these meetings can then be shared with senior sales managers and this entire process should provide the CEO with a more balanced view of particular customer relationships. Meetings should also be held with representatives of the company's largest suppliers to obtain a better idea of how they can continue to meet the company's requirements and assess where they see their own businesses going in the future. The CEO may learn that a supplier is planning to reduce its investment in components used by the company and this information should motivate the CEO to begin searching for alternative sources of supply. On the other hand, a supplier may be interested in strengthen ties with the company and the CEO may want to consider the possibility of some sort of formal strategic alliance with the supplier including financial support for upgrading the supplier's resources in areas of interest for the company. With regard to outside professional advisors, the CEO should meet with partner-in-charge of the company's account at it primary outside law firm and, or course, should meet and get to know the audit partner at the company's independent accounting firm.

All of the meetings recommended for the new CEO have as one of their primary purposes collection of information and mental impressions that the CEO will need in order to develop and eventually promote his or her own unique strategic plan and vision for the company. In addition, however, the CEO must take advantage of the face-to-face contact with executives, managers and key employees to engage them in the process of generating excitement about the company and motivating everyone to do what is required by the CEO to achieve his or her goals and objectives. The CEO should make it clear that he or she intends to spend a limited period of time following commencement of employment to collect information, map out a strategic plan, evaluate and modify the organizational design of the company, and make the necessary changes to the management team.

New Leader's Guide to Diagnosing the Business

In their 2008 article in the Harvard Business Review, Gottfredson et. al. noted that from 1999 to 2006 the average tenure of departing chief executive officers in the United States declined from about 10 years to slightly more than eight. A 2006 survey by the outplacement firm Challenger, Gray & Christmas found that 40% of the CEOs who left their jobs that year had been in office for an average of just 1.8 years. Data like this not only highlights the difficulties and risks associated with being a CEO, it also makes it clear that a new CEO has a very limited window, often no more than a few months, from the time she or he assumes the position to identify challenges, threats and opportunities and begin executing plans for the key tasks in front of them, which may include boosting profitability, increasing market share and/or overtaking competitors.

In order to have the best chance for getting off on the right foot, the new CEO must have a simple diagnostic tool to identify the company's distinctive strengths and weaknesses and unique combination of threats and opportunities and determine what goals are reasonable and where the CEO and the rest of the management team should focus their performance-improvement efforts. Gottfredson et. al., relying on collective decades of experience Bain and Company working with new CEOs, argued for a systematic diagnostic template that reflected an understanding of the fundamentals of business performance (i.e., the basic constraints under which any company must operate), was both comprehensive and focused (i.e., covering all the critical bases of the business, but only those bases, without requiring any waste of time or resources on less important matters), and lent itself to easy communication and action. The recommended template, as presented in detail in the article, was built on the following four principles that defined any successful performance improvement program and certain questions associated with each of the principles:

First Principle: Costs and prices almost always decline.

- How does your cost slope compare with your competitors'?
- What is the slope of price change in your industry right now, and how does your cost curve compare?
- What are your costs compared with competitors'?
- Who is most efficient and effective in priority areas?
- Where can you improve most, relative to others?
- Which of your products or services are making money (or not) and why?

Second Principle: Your competitive position determines your options.

- How do you and your competitors compare in terms of returns on assets and relative market share?
- How are the leaders making money, and what is their approach?
- What is the full potential of your business position?
- How big is your market?
- Which parts are growing fastest?
- Where are you gaining or losing share?
- What capabilities are creating a competitive advantage for you?
- Which ones need to be strengthened or acquired?

Third Principle: Customers and profit pools don't stand still.

- Which are the biggest, fastest-growing, and most profitable customer segments?
- How well do you meet customer needs relative to competitors and substitutes?
- What proportion of customers are you retaining?
- How does your Net Promoter Score track against competitors'?
- How much of the profit pool do you have today?
- How is the pool likely to change in the future?
- What are the opportunities and threats?

Fourth Principle: Simplicity gets results.

- How complex are your product or service offerings, and what is that degree of complexity costing you?
- Where is your innovation fulcrum?
- What are the few critical ways your products stand out in customers' minds?
- How complex is your decision making and organization relative to competitors'?
- What is the impact of this complexity?

- Where does complexity reside in your processes?
- What is that costing you?

Gottfredson et. al. argued that use of the template should result in the identification of three to five critical change initiatives that should be at the core of the new leader's actions toward improving performance. The template is designed to help companies understand exactly where they are starting from and exactly where and how the business can be improved. However, time is a scarce resource for the new leader and a lot of data must be gathered and analyzed quickly, which means that the she or he must be able to rely on other senior leaders of the company to form and manage teams that can address and answer as many of the questions posed above as possible and distill their findings down into short, focused presentations that highlight the main threats and opportunities and allow the CEO and other senior managers to quickly understand the decisions that must be made in the areas that are of the most immediate importance.

Getting the first change initiatives right is obviously important to a successful tenure for a new CEO; however, the work does not stop there. As noted by Bower, the CEO must also have the the ability to judge where the world and the company's markets are headed, and frame a vision of how the company should reposition itself; the ability to identify (and if needed recruit) the talent that can turn this vision into reality; an understanding, in a deep and substantive way, of the problems the company faces; and comprehensive knowledge of how the company really works, including being fully embedded into the firm's administrative inheritance and deep and trusting relationships with key players. Answering the questions above are a step toward competence in each of these areas. For example, understanding the organization, and the problems faced by the company, begins with assessing the complexity of decision making and organization. Insider CEOs, leaders who have grown up inside the organization, should already have a sense of the answers to each of the questions posed above; however, they must be prepared to bring an outsider's cool objectivity to the process and make tough decisions that may disrupt the traditional way of doing things. Hopefully, the deep relationships that insider CEOs have developed over the years will serve them well in convincing entrenched internal interests of the need for change.

Source: M. Gottfredson, S. Schaubert and H. Saenz, "A New Leader's Guide to Diagnosing the Business", Harvard Business Review, February 2008, 63; and J. Bower, "Solve the Succession Crisis by Growing Inside-Outside Leaders", Harvard Business Review, 85(11) (November 2007).

§3 The emerging company CEO

It generally takes a fair amount of time from the point a company is launched for the duties and responsibilities of the company's senior leader to expand and the focus of the leader will change dramatically as the company evolves and grows. At the time a company is launched, a President will typically emerge from among the members of the founding group. He or she may not assume the CEO title at that point, particularly if it is anticipated that an executive from outside the founding group will be brought in at some point in the near future. In any case, this initial President will almost always take on some or all of the responsibilities that will ultimately be divested to other members of the core management team, notably R&D, sales, HR and administration. Unless the company is launched with a finished product and an initial order, most of the time will be spent on the road talking to key players in the market to obtain input and feedback on the company's initial plans. Numerous meetings will, and should, be held with prospective customers, investors and other business potential business partners. A President with an aptitude for public relations may also begin working with media sources to generate interest in the fledgling business and its proposed products and services. Based on all the information collected from these activities, the President should be the person who takes initial responsibility for determining the best way to focus the firm's technology and R&D efforts on creation of marketable products and services. At the same time, the President must begin building the company's employee base; however, caution must be used not to fill too many positions that ultimately will be supervised by new members of the senior management group since they may prefer to build their own teams once they come on board.

No person, regardless of talent and energy level, can continue to juggle all of these activities without assistance for a sustained period of time. Accordingly, the President should have a plan in place from the beginning for bring in new members of the core management team and outsourcing other functions until the company has reached the point where internal growth is necessary and cost-effective. The hiring sequence typically follows the functional development of the product. Accordingly, a VP R&D and/or Product Development is a top priority followed by a VP Sales to assist the President in identifying and development a customer base upon which initial revenues can be projected. With those functions covered, the President can invest more time and effort in marketing and cultivating relationships with prospective investors and business partners for other functional areas, such as manufacturing and distribution. External resources can be used to handle other key functions until senior managers are needed and identified. For example, outside accounting firms can generally assist not only with accounting and audit services, but also offer help with business and tax advisory services, selection and implementation of financial systems and internal controls and consulting services in diverse areas such as compensation, security and information technology.

As the core management team expands and external resources are deployed for interim financial and administrative functions and activities, the President can turn his or her attention toward the roles that will occupy more and more time in the future as the company expands. Among other things, the President, or CEO if someone else assumes that office, should be prepared to take primary responsibility for those activities which are essential for the company to acquire the additional resources necessary for the company to grow including development and management of the image and reputation of the firm; public and media relations; development and launch of initial marketing plan; definition and development of the initial product line; financial and legal matters, including development of relationships with commercial banks, venture capitalists, investment bankers and professional service providers; and exploration of potential strategic partnerships. Note, of course, that several of these functions will ultimately be passed on to other members of an expanded core management group. For example, financial and legal matters usually fall within the scope of responsibilities for the CFO once that position is filled and the VP Marketing will ultimately oversee marketing and public relations activities.

§4 --Duties and responsibilities

Regardless of the stage of evolution of a company the senior leader, whether he or she is referred to as the President or the CEO, has a broad, if not overwhelming, set of duties and responsibilities. Some of these duties are formal and prescribed by law and the governing documents of the company (e.g., the articles of incorporation and bylaws of a corporation); however, most of the expectations imposed on the CEO are often vague and are left to the CEO to define and execute. A CEO is confronted with challenges in a number of different areas and from various stakeholders and he or she must be able to balance and prioritize the demands on his or her time and intellectual resources. For example, at any point in time the CEO may be focusing on the timetable for launching a new product or service and establishing and testing specifications for the product or service; evaluating and responding to unforeseen actions by competitors; responding to the concerns of key customers; reviewing the suggestions of the marketing team regarding shifts in brand strategy and image of the company; and preparing for the next board meeting and a presentation to prospective new investors.

The CEO of a larger company may be able to delegate certain matters to other members of the executive team; however, person at the top of the hierarchy of an emerging company generally does not have that luxury. An emerging company CEO has several broad areas where he or she must take the lead—setting and executing company strategy; establishing and reinforcing the desired organizational culture; recruiting the other members of the core management team and making sure that they learn how to work together with a focus on the desired strategy; allocating the cash and other resources of the company among the current operational activities; and communicating with key external stakeholders including vendors, customers and investors. In general, the CEO has the primary responsibility for managing the company towards profitability and navigating through the challenges of growth, expansion and change. When the company is in its early stages, often without resources and confronted with what appear to be overwhelming challenges, the CEO has a special role in motivating other managers and employees and in selling prospective members of the executive team on the potential of the company and its business model. The sections that follow expand on some of the concepts that need to be part of the job description for any emerging company CEO.

§5 ----Recruitment and oversight of core management team

The CEO should assume primary responsibility for recruiting and overseeing the members of the core management team. This is certainly true for emerging company CEOs and remains so even for the CEO of a large company. In order to be effective in this area, the CEO must define and allocate responsibilities among all core management team members in each of the key functional areas of product development, sales, marketing, finance, HR and operations. In addition, if conflicts arise between functional departments, or it is unclear which department has primarily responsibility with respect to a particular activity or project, the CEO must be prepared to actively intervene and resolve the dispute. The CEO should establish a set of guidelines for interacting with the members of the core management team that include rules and procedures for collecting information from team members, monitoring their specific performance and ensuring that all of the key managers communicate effectively and understand the need for cooperation among different functional departments and, as the company grows, business units.[3]

§6 ----Creation of business planning practices and procedures

The emerging company CEO must take the lead to make sure that the company makes the transition from a chaotic start-up business to an established firm by making sure that business planning practices and procedures are created and followed throughout the growing organization. This process begins with setting clear and well-defined short- and long-term performance goals for the entire company and for each of the functional areas directed by the members of the core management team. In addition, CEO, with input from the other members of the core management team, must assume final responsibility for establishing clear priorities and timetables for meeting stated objectives and targets and for allocating resources among various projects and set clear budgets and objective methods for monitoring progress and performance. Finally, the CEO is charged with making sure that company managers and employees have the resources and tools that are necessary for achieving the agreed objectives and targets within the schedule that has been established, a responsibility that pushes the CEO toward several of the other assignments described below such as establishing relationships with investors and other business partners that have the necessary capital and other resources.

At the beginning many emerging companies focus their attention on a narrow market niche; however, as the firm grows it becomes necessary to move outside of the initial niche and broaden and diversify the range of products or services offered to customers. This shift requires a new or substantially revised market strategy and the CEO is faced with dilemma of relying on his or her intuition or shifting to a more formal strategic planning approach. Hendrickson and Psarouthakis found that the most profitable firms in their study of top performing small organizations were those that emphasized quality and securing market share in their strategies, although patience was necessary given that in general it took 12 to 24 months to see the benefits. Small firms should not rely on discounting as an effective strategy for achieving and maintaining profitability. Small firms should think carefully before diversifying into other businesses. If diversification is attempted it should be limited to complimentary lines of existing services or products. Contrary to popular belief and advice, the most successful smaller firms relied heavily on the intuition and experience of the CEO in setting their direction. In addition, the strategy process may proceed more smoothly and effectively if the CEO acts alone as opposed to getting bogged down in attempt to reach a consensus within a committee of senior managers.[4]

§7 ----Management of external stakeholder relationships

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[3] For discussion of cooperation and communication among members of the executive team, see "The Executive Team" in "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[4] L. Hendrickson and J. Psarouthakis, Dynamic Management of Growing Firms: A Strategic Approach (Second Edition) (Ann Arbor, MI: University of Michigan Press, 1998), 13, 188.

Even though the other members of the core management team will eventually inherit responsibility for various functional activities and the accompanying business relationships, the emerging company CEO should be actively involved in all major customer, investor, alliance and supplier relationships. For emerging companies, these relationships are crucial for survival since they provide access to capital and other resources that the company generally is not able to accumulate on its own until it has had an opportunity to development and launch a broad line of products and/or services. The CEO needs to be attentive to these relationships and provide support to managers throughout the company in their efforts to strengthen and broaden external connections and communications. For example, as noted below, securing and maintaining the trust of outside investors is an important activity for an emerging company CEO and he or she should also expect to invest a significant amount of time and effort in working with the company's initial key customers since their satisfaction will be an important selling point in convincing additional customers to consider the company's products and services.

§8 ----Articulation and communication of company vision and mission

The CEO must be an articulate and polished chief spokesman for the company and its vision, both internally and externally. This requires active involvement and interest in defining and promoting the position, image and brand of the company and its products and services. Externally, the CEO must be able to communicate effectively with customers and others, such as analysts and members of the trade press, who are either a likely purchaser of the company's products or services or in a position to influence the purchasing decisions of others. Internally, the CEO must be able to define the vision, position and strategic value of the company to all employees and articulate the role that each employee has in moving the company forward. The CEO must also be sure that all employees are kept informed about the progress of the business, both positive and negative. Companies that establish sound practices regarding flow and sharing of information will be more effective in acquired necessary resources including capital, personnel, raw materials and useful competitive intelligence from outside the organization. In general, a company will be more successful in its efforts to encourage sharing of information when the morale and commitment of employees is high and employees have a clear understanding of the company's organizational mission and purposes.[5] Finally, in cases where the company is confronted with a crisis, the CEO must communicate the company's response and educate employees as to how they should interact with third parties during difficult periods.

§9 ----Designing and implementing employee motivational strategies

The CEO of an emerging company generally does not have the luxury of a fully-staffed HR department and thus must be actively involved in designing and implementing strategies for motivating employees and inspiring them to be creative and devote their energies toward the achievement of the goals and targets that should be established for

[5] L. Hendrickson and J. Psarouthakis, Dynamic Management of Growing Firms: A Strategic Approach (Second Edition) (Ann Arbor, MI: University of Michigan Press, 1998), 66.

the company generally and for each employee individually. With an emerging company it is particularly important for the CEO to create incentives for employees to identify and pursue creative approaches to maximizing the growth of the company since input from employees is necessary in order to fill in the details of the strategic plan for developing and commercializing new technologies and products and services based on those technologies. The tools used to motivate employees are also an important part of the company's efforts to recruit additional talent in specialized areas including prospective managers who will be asked to make heavy contributions to launching new departments and business units.

§10 ----Monitoring and evaluating the company's strategic plan

The CEO must constantly gather and evaluate information that is relevant to monitoring the company's performance and comparing actual results against the goals included in the company's strategic business plan.[6] This can be a daunting task that requires a mix of formal reporting procedures and instinct and natural curiosity about the technology and markets in which the company is involved. For example, the CEO must plan on holding regular meetings with the entire senior management group (i.e., executives and other persons in management positions overseeing key operational activities), no less than frequently than monthly and generally more often during the earlier stages of the company's existence, to review the company performance against the agreed objectives, targets, budgets and schedules. The focus of these meetings should be on identifying potential barriers to the anticipated rate of growth and developing strategies for overcoming potential problems. The CEO must also monitor enthusiasm and energy among the broader base of employees. Finally, the CEO must understand how the marketplace perceives the company and its products and services so that he or she can take any necessary steps to improve the image of the business and the quality of its product and service offerings.

§11 ----Communicating with outside directors and investors

It is the duty and responsibility of the emerging company CEO to report the progress of the business to, and seek advice and counsel from, the company's board of directors and its major outside investors. Emerging companies typically receive funding from venture capitalists and other professional investors that insist, as a condition of providing capital, on representation on the company's board of directors and those representatives are generally quite involved in overseeing the activities of the company and monitoring the manner in which the CEO is executing the company's strategies. Board meetings will be held on a regular basis during the early stages of the company's development and the CEO should also expect to hold informal discussions with outside directors between meetings to answer specific questions and keep them informed of new developments including unforeseen problems with product development that might delay the

[6] For a detailed discussion of strategic planning, see "Strategic Planning: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

introduction of the company's products and the project ramp up of revenues. Relations with the major outside investors are particular important for an emerging company CEO as they are usually the best source of additional funding and thus it is important to ensure that those investors are comfortable with the progress of the company and the ability of the CEO and the executives that he or she recruits to guide the business. Investor relations obviously remain important as the company grows and the CEO will need support from other members of the executive team, notably the CFO, as well as new manager and employees that focus exclusively on investor communications issues.[7]

§12 ----Assessing and managing risks and potential liabilities

Finally, the CEO, working with other members of the senior management team, notably the CFO when he or she is appointed, has the ultimate responsibility for identifying and monitoring all potential material liabilities associated with the business of company and for devising and implementing strategies for effective managing legal and business risks. In addition, of course, the CEO must be able to respond quickly and decisively to any crisis that may arise along the way. These skills have always been important; however, the recent turbulence in the financial markets, which has impacted not only public companies but all businesses regardless of their size and stage of development, has driven outside directors and investors to demand that the CEO demonstrate that he or she is able to prudently pursue economic risk while judiciously managing the risks that company faces from economic, political and social factors in its environment.

The small size of an emerging company as it begins its activities typically insulates it from many of the public relations issues that must be addressed by larger organizations. For example, many laws and regulations include exemptions or exclusions for businesses that have less than a certain number of employees. However, since it is known in advance that these safe harbors will not be available if the company achieves its known growth goals and objectives the CEO should launch and maintain a systematic program of risk assessment at the earliest stages of the company's development and be prepared to install internal controls and create formal ethics and compliance programs.[8] As with the other issues, this is an area in which the CEO can play an important role by doing the following[9]:

- The CEO should become involved with the relevant educational systems to ensure that there is an adequate pool of managers and employees with the skills necessary for the company to achieve its goals and objectives.
- The CEO should make a concerted effort to demonstrate to regulators and the communities in which the company is located that the company is concerned about environmental issues.

[7] For further discussion of the role of outside directors, see "Board of Directors" in "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[8] L. Hendrickson and J. Psarouthakis, Dynamic Management of Growing Firms: A Strategic Approach (Second Edition) (Ann Arbor, MI: University of Michigan Press, 1998), 13.
[9] Id. at 149 and 191.

- The CEO should ensure that the company adopts and enforces programs and policies to reduce potential liabilities under federal, state and local health and safety laws.
- The CEO should make sure that the human resources function adopts and enforces appropriate personnel policies and practices to reduce potential liabilities under equal employment and affirmative action laws.
- The CEO should adopt "good neighbor" policies that enhance the stature of the company in all of the communities in which it is located.

§13 --Interaction with other management team members

One of the first, and most important, responsibilities of the CEO is recruiting and overseeing the activities of the members of the core management team. As the company grows the CEO must necessarily become more dependent on his or her colleagues and it is essential that the CEO put together a team that is skilled, experienced and collegial. Clearly, each member of the team must satisfy the specific conditions and qualifications related to the position; however, the CEO must insist that the other senior managers be ready and able to lend support in several key areas. For example, senior managers must take their reporting responsibilities seriously and be active participants in regular management team meetings. In addition, senior managers must keep the CEO informed of all major developments, positive and negative, in their functional areas. Finally, senior managers must aggressively focus on their functional areas and related objectives and targets, yet be prepared to accept the decisions of the CEO with respect to resolution of resource conflicts in the best interests of the company as a whole.

In turn, in order for them to be effective, senior managers must be able to count on the CEO to perform certain functions and provide necessary support when necessary in order for the senior manager to carry his or her duties. The CEO must establish clear short- and long-term performance and objectives for each senior manager and the associated functional department. The CEO must then establish and maintain real channels of communication, including regular management meetings, with each senior manager. Senior managers need to be empowered to provide input and advice on all aspects of the business, including helpful and respectful criticism. The CEO must be available to meet with senior managers to discuss specific problems and to interact with customers, suppliers and other business partners who are important to the business programs of the senior managers.

§14 --Recruitment and selection

When one of the members of the founder group of an emerging company assumes the role of CEO, there is really no formal recruiting process. However, when the CEO is hired from outside the founder group—either as the initial CEO or to replace a founder who has been occupying the position on an interim basis, the process should involve a number of interested parties, including the founders and each of the independent (i.e., "non-employee") members of the board of directors. Each person and company has their own specific requirements with respect to the attributes of a successful CEO candidate, but the following characteristics are consistent with the suggested job and skill description for an emerging company CEO summarized above:

- Demonstrated experience in successfully managing rapidly growing businesses, either as a CEO or a general manager of a division or subsidiary operating with the full range of functional activities;
- Aptitude for recruiting and directing the senior management team;
- Poise and confidence to act as the chief spokesman for the firm and make quick and firm decisions regarding the direction of the company's business; and
- Understanding of the importance of financial performance, budgeting and internal controls and experience with implementing appropriate procedures and systems and conveying the need for compliance throughout the company.

Some of the characteristics above can be evaluated through a review of the work history of each candidate and interviews with prior employers and others that have dealt with the candidate at various stages in his or her career. In addition, however, the interview process should be used as an opportunity for each candidate to lay out his or her plans and objectives for the CEO position. In fact, the candidate should be required to make a clear and concise presentation of the actions that he or she would take within the first few weeks after assuming the position. In fairness, the company must be prepared to provide the candidate with sufficient information to allow him or her to make a meaningful presentation and this process also allows the company to evaluate the candidate's ability to quickly digest data about the company's technology, products, markets, overall business environment and financial performance.

§15 --Motivational strategies

While hopefully the CEO will be largely self-motivated to fulfill his or her responsibilities and move the company forward, there are a variety of motivational tools and practices that are typically used at successful emerging companies. At the board level, the directors should recognize the need to provide the CEO with a compensation package that is commensurate with the duties and responsibilities and generally competitive with his or her peers in the relevant industry and market. In the Silicon Valley, for example, this has traditionally meant a competitive base salary, an ownership stake in the business and a performance bonus structure that rewards the CEO (and other senior managers) for attaining agreed objective financial, technical and market-based targets and objectives.

Beyond compensation, however, other members of the senior management team can be an important support network for the CEO through the way that they handle and manage their own duties and responsibilities. First and foremost, each member of the senior management group must keep the CEO informed about major issues, activities and problems the manager's functional area. In addition, a conscious effort should be made to involve the CEO in each of the company's key business relationships, including customers, suppliers, other business partners and the trade press and other outside parties in a position to influence market opinions regarding the firm and its products and services. Finally, the senior management group must respect, and comply with, the CEO's efforts to manage and direct the group, including participating in management meetings and compliance with reporting requirements.

§16 --Performance evaluation

One of the easiest ways to identify a CEO who is not performing effectively is to evaluate how he or she is doing in relation to the key tasks and activities that have been described above. For example, the inability of the CEO to develop a good business plan, with clearly defined targets and objectives, should be a warning sign that the company is in danger of drifting off course. A poorly performing or incomplete senior management group is also an indication that the CEO is not effectively leading and managing the business, particularly when the CEO spends a good deal of time on matters that should have been delegated to others. Also, a lack of involvement in key business relationships and in external and internal communications means that the CEO is not fulfilling his or her unique role as the chief spokesman and "cheer leader" for the firm.

§17 The public company CEO

The life of the public company CEO has changed dramatically, and permanently, over the last several years in the wake of seemingly endless episodes of corporate malfeasance based on the failure of a CEO to act lawfully and ethically in discharging his or her duties and responsibilities. The scandals that have captured the attention of the public and lawmakers have led to a substantial overhaul of the regulatory framework associated with corporate governance and a litany of new laws and regulations that have increased the risks associated with serving as a public company CEO and the cost of being a public company. These new rules, many of which were implemented by Congress in the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), are quite broad and touch on a wide range of business and financial matters; however, the primary impact on the public company CEO has been the need to be more directly involved in accounting and financial reporting issues and in the design and administration of compliance and risk management programs that cover all areas of the company's operational activities. The consequences of failure are severe including criminal penalties. While the focus of the sections that follow is the public company CEO, the requirements of the Sarbanes-Oxley Act are quickly being incorporated into "best practices" guidelines for privately-held companies that are being used as evaluative factors for decisions that must be made by key business partners of those companies including lenders, investors, suppliers and customers.

The public company CEO is, in many ways, the face of his or her company and the image that he or she presents can have a significant impact on the reputation of the company in the investment community and the general marketplace. As such, it is not surprising that many of the duties and responsibilities of a public company CEO relate to communications with key stakeholders. In addition, of course, the CEO is the individual responsible for setting a strategy and vision for the company and coaching the other executives and key managers throughout the organization on how the organizational structure should be designed and operated to achieve the objective goals associated with the strategy. Finally, the CEO must deal with the specific requirements, prohibitions and responsibilities created by the Sarbanes-Oxley Act including prohibitions on loans to the CEO; disgorgement of bonuses, stock option gains and stock sale profits by the CEO if his or her company is required to restate its financial statements as a result of misconduct and material noncompliance with securities laws; prohibitions of CEO stock sales during specified periods and accelerated reporting of any stock transaction by the CEO; and, finally, the required certifications by the CEO (and the CFO) in the quarterly and annual reports that public companies must file with the Securities and Exchange Commission and release to the investment community.[10]

The Sarbanes-Oxley Act, particular the detailed certification requirements, has clearly impact the way in which a public company CEO allocates his or her time and attention. First of all, the public company CEO must be prepared to be an active participant in the preparation of the company's periodic reports and must develop and maintain a thorough and timely understanding of the relevant disclosure and accounting requirements and the way in which they are impacting the content of the company's reports. In addition, the traditional role of the CEO in establishing planning processes and information systems has expanded to include collection and evaluation of all information that might be relevant to the ability of the CEO to provide the required certifications on internal controls and the integrity of the company's accounting processes. The public company must now demand more from other members of the executive team with respect to make sure that they are exercising the proper oversight in particular areas that will need to be discussed in the company's periodic reports. Among other things, this means asking probing and detailed questions about operational activities that are outside of the actual background and training of the CEO. In order for the CEO to properly evaluate the responses that he or she receives the CEO needs to become more educated about a wide range of functional specialties including finance, accounting, sales and marketing and legal. Finally, the public company CEO is spending a good deal of time with the company's outside accountants and legal counsel on reporting issues and with outside directors who are taking an increasingly activist approached armed with broad new powers by the Sarbanes-Oxley Act and the revised listing standards of the major national securities exchanges.

§18 --Duties and responsibilities

The public company CEO position, as well as all the other positions on the executive team, should have some form of formal job description which is created during the process of designing the organizational structure. Many of the duties and responsibilities are similar to those of the emerging company CEO which is described above; however, a public company CEO is generally confronted with a different set of issues and priorities that need to be taken into account as the CEO goes about his or her day-to-day activities.

[10] For further discussion of the requirements, prohibitions and responsibilities mentioned in the text, see "Directors' Rights, Duties and Liabilities" in "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

For example, as previously noted, a public company CEO has a number of specific regulatory duties and requirements under the Sarbanes-Oxley Act and other federal securities laws. In addition, public company status means that the CEO must be actively involved in communications with key constituencies in the investment community. Finally, the growth of the company on the way to and beyond the initial public offering means that the CEO must oversee a much wider range of business activities and must learn how to rely on other members of the executive team and key managers to whom the CEO has necessarily delegated authority for decisions that the CEO previously made on his or her own.

Historically the typical public company CEO maintained a relatively low public profile; however, it is now common for the image and reputation of companies to be closely aligned with the public perception of the personality and competence of the CEO. In fact, in one study students were asked to look at pictures of 50 CEOs from the companies ranked highest and lowest on the Fortune 1000 and rank them based on specified factors such as competence, dominance, likeability and trustworthiness. The results showed that the CEOs that were ranked highest in terms of leadership attributes were those that oversaw the better performing companies.[11] While no one should serious suggest that looks guarantee success, it is apparent that the impact of the public company CEO on a company is a manifest and extends far beyond any words that might be included in a job description. It is therefore useful to take note of the following important ways that the CEO of a public company can place his or her imprint on the way the company operates and performs:

- While the CEO will generally have a team of specialists to assist him or her with respect to organizational strategy and design issues, the CEO is ultimately responsible for establishing the major business goals and objectives of the company and vetting and approving the organizational structure of the company—how responsibilities are allocated within the company, which positions have authority over others, and the policies and procedures for motivating employees and coordinating the activities of different business/functional units. The CEO must also monitor the effectiveness of the organizational structure and initiate appropriate changes as the company strategies change and the company needs to respond to new opportunities and challenges.
- The CEO is expected to take the lead in identifying, selecting and managing the other members of the executive team and also should take an active role in filling other key positions within the company and making sure that the company has in place a formal system for making sure that the best talent is tapped to manage the business and that qualified managerial prospects are carefully trained and promoted.
- One of the main areas of organizational design—structure—has already been mentioned; however, the CEO is also expected to consciously determine the optimal culture for the company and take steps to establish and reinforce the appropriate values and norms associated with that culture. Culture is influenced by the people that the CEO selects for key management positions and the way in which the

[11] N. Rule and N. Ambady, "The Face of Success: Inferences From CEO Officer's Appearance Predict Company Profits", Psychological Science, 19(2) (February 2008).

company expects problems to be solved and decisions to be made. For example, a CEO striving for an entrepreneurial culture should hire managers with the appropriate spirit and then establish company rules and procedures that empower those managers to take sensible risks to achieve innovative results.

- Subject to the final approval of the board of directors, the CEO is responsible for setting the rewards to be offered to managers of the company, including the CEO, as incentives for them to pursue and achieve the business goals and objectives of the company. Obviously the potential for conflict-of-interest is high when it comes to deciding the amounts that are to be allocated to managers as opposed to other stakeholders including the shareholders, employees and even customers. Compensation packages for the members of the executive team of an emerging company are generally dictated by the key investors; however, as the company grows and becomes public the CEO is granted more discretion although his or her decisions have become subject to great scrutiny in recent years with the adoption of detailed disclosure requirements for reports circulated within the investment community.
- The CEO is responsible for establishing and implementing the organizational strategy of the company including decisions about how scarce inputs, such as capital and human resources, will be deployed and how authority will be allocated among the various functional and business units within the company. At a strategic level the CEO assumes a leadership role in determining the types of products and services that the company will offer as well as the specific markets in which the company will compete. Mistakes in these areas can cost the company dearly in terms of current profitability and lost ground in the future if the company is forced to catch up with others that have made better choices.
- The public statements and actions of the CEO are important factors in how the company is perceived by its key internal and external stakeholders. For example, an energetic, confident and charismatic CEO generally has an advantage in raising capital from investors and commercial lenders and closing business relationships with strategic partners. Similarly, if the CEO genuinely and proactively cultivates a corporate culture of integrity and ethical values the company will enjoy a good reputation within the business community and with regulators that oversee the areas in which the company conducts its operations. On the other hand, poor business and ethical decisions by a CEO will create a crisis that causes investors to flee and destroys morale within the company. The bottom line is that the CEO is the company leader in setting and managing the external brand and image of the company.
- The CEO should take the lead in company efforts to build networks with its key business partners and establish strategic alliances. No company, regardless of its size and volume of resources, can take on every activity necessary for it to be successful and an important element of any company’s business strategy is identifying key vendors, distributors, manufacturing partners and other service providers that can become reliable elements within the company’s value creation chain. The CEO should be prepared to invest time and effort in creating the foundation for the company’s networks and alliances even if the day-to-day details are delegated to other members of the executive team and to managers at lower levels of the organizational hierarchy.

- It is now essential for the CEO to be prepared to oversee the company's activities with respect to globalizing the marketing and sales of the company's products and services and tapping into resources in foreign markets to improve operational efficiency and the capacity of the company to be continuously innovative. Globalization is an almost inevitable phase for growing companies and the CEO must be involved in identifying appropriate foreign markets and should expect that he or she will need to spend time traveling to new markets to meet with local officials and business partners and train and support the managers of the business units established in those markets.

§19 --Compensation strategies

Compensation is an important motivational element for the CEO regardless of the size of the company and its stage of evolution. For larger companies, however, compensation strategies for the CEO and other members of the executive team have become part of the broader debates in the realm of corporate governance and one of the most important practical developments from the last wave of corporate governance rules and practices has been the increased emphasis on tying executive compensation to objective performance measures that equate to shareholder value. The board of directors, particularly the compensation committee thereof, is charged with conducting a comprehensive annual review of the performance of the CEO and other executives of the company. In the course of that review, the compensation committee is required to make recommendations for the entire board as to the appropriate level of compensation for the CEO. The overriding purpose of this scheme is to ensure that investors are no longer subject to a scenario in which the value of their shares has diminished substantially while the CEO is rewarded with bonuses and stock options that are completely out of proportion to performance of the company.[12]

The challenge for the board of directors is to develop performance measures and incentive strategies that allow the company to continue to attract experienced senior managers while at the same time ensuring that those managers are accountable to the shareholders of the company. While there is no single form of compensation plan that makes sense for all companies, there are an emerging set of "best practices" that board members must seriously consider when designing and administering a compensation arrangement with the CEO. Specific factors that should be taken into account include the relationship between base salary and incentive compensation (i.e., what percentage of the CEO's potential compensation is essentially "guaranteed" in the form of a base salary regardless of company performance); tying incentives to enhancement of shareholder value; the form of incentive compensation (e.g., cash bonuses, stock options or phantom stock); setting goals and objectives that can be attained and measured without undermining the integrity of the company's financial and business information; offering

[12] For further discussion of specific regulatory requirements related to executive compensation and the activities of the compensation committee of the board of directors, see "Board Committees" in "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

rewards based on sustained growth of shareholder value rather than on short-term performance; and creating a compensation plan that aligns the rewards to the performance of the company in relation to its industry peers.

§20 ----Balancing base salary and incentive compensation

Many commentators have criticized CEO compensation packages that provide for a CEO to receive what are perceived to be excessive amounts as a base salary even in times when the performance of the company has lagged far behind industry peers. In the rapid growth times at the end of the 1990s, companies paid substantial salaries to lure CEO candidates, thereby reducing the importance of performance-based supplements. However, as times have become more difficult, and companies have been forced to downsize and reduce compensation for most of their employees, large guaranteed payments to the CEO have become difficult, if not impossible, to justify. Accordingly, it is now recommended that the proportion of the CEO's compensation package attributable to base salary should be relatively low in relation to contingent compensation based on attainment of objective performance measures.

§21 ----Tying performance-based incentives to enhancement of shareholder value

Performance-based incentives for the CEO should be tied to objective measures of improvement of overall shareholder value. There are obviously a number of different measures that can be used to gauge the business and financial performance of the company, including gross revenues, net income, new product introductions, and the number of employees. All of these are certainly important matters that should be, and usually are, considered by the compensation committee in its internal evaluation of the performance of the CEO. However, progress in any of these areas is of little immediate value to investors unless it translates into an increase in the value of their securities. Accordingly, shareholder value should be used as the primary measurement tool in awarding incentive compensation to the CEO and other executives.

§22 ----Form of incentive compensation

Many compensation experts are now recommending that incentive compensation for the CEO should be awarded primarily in the form of cash, rather than in the form of stock options. While it remains important for the CEO and other executives and senior managers to have an "equity interest" in the company, stock option compensation has now clearly fallen into disfavor due to perceptions that the company leaders have been able to realize significant profits from exercising options at times when the recent performance of the company has been poor. Companies may require that their CEOs use a portion of any cash compensation to purchase shares of the company at the then-current fair market value, perhaps with a modest discount that is no more favorable than any discount that is offered to all other employees of the company. If a discount is allowed, the CEO and other executives and senior managers may be prohibited from disposing of those shares for a certain period of time, thereby creating incentives to sustain shareholder value over a long period of time.

§23 ----Maintaining integrity of financial and business information

While shareholder value, measured through the price of the company's securities, is the recommended measure of performance, it is essential that the price be based on full and accurate financial information and on accounting practices that will not be overturned or challenged in the future. Accordingly, companies must be prepared to enforce each of the sanctions included in the Sarbanes-Oxley Act with respect to disgorgement of certain types of compensation by the CEO and the chief financial officer in the event that the company is required to restate its financial statements due to misconduct.[13] Since it has sometimes proven difficult for companies and regulators to recover amounts that may have previously been transferred to senior managers of troubled companies, provision may be made for the payout of any incentive compensation to be made over an extended period of time.

§24 ----Emphasizing sustained growth of shareholder value

Incentive compensation arrangements should be structured in a way that rewards the CEO and other executives for sustained growth of shareholder value. For example, while incentive compensation may be awarded based on one-year improvement in the price of the company's shares, more weight should be given to achieving steady growth over a period of three to five years. This reduces the temptation for the members of the executive team to take actions that may result in a temporary enhancement of shareholder value and allows them to accept projects that may have a near-term drag on earnings yet ultimately will lead to a stronger and more valuable business.

§25 ----Aligning incentives to industry performance

When establishing the criteria for awarding incentive compensation, reference should be made to the performance of the company in relation to competitors in the same industry. It makes little sense to grant an award based on increasing shareholder value when, as a practical matter, the performance of the company lagged behind similar firms that were confronting the same competitive and business conditions. Obviously, great care must be taken in identifying the appropriate industry, and the list of competitive businesses should be regularly reviewed to take into account entries and departures from relevant markets.

§26 --Performance evaluation

The board of directors of every public company should establish procedures for a formal review and assessment of the performance on the CEO no less frequently than annually. Such an assessment is mandated by the listing requirements of the major national securities exchanges and is also recommended as a matter of good practice. As a matter

[13] For further discussion, see "Introduction to Corporate Governance" in "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

of fairness to the CEO, and in order for the assessment process to flow smoothly, the board of directors and the CEO should first reach agreement on the specific duties and responsibilities of the office so that there is no confusion about the expectations for the performance of the CEO. The best way to do this is to ask the CEO to provide his or her own statement of duties, or job description, along with similar information on the key responsibilities of other executives and the expectations of the CEO as to how those executives will communicate with the CEO about issues that have been delegated to them by the CEO. This is particularly important when there is a COO or President since the board will need to understand how the CEO and the COO/President divide their responsibilities. The board should not simply take the statement of the CEO "as is" but should be prepared to challenge anything that it believes does not seem right. This is an opportunity for the directors to educate the CEO about their expectations and change priorities that they believe might be misplaced. The mutually agreed job description that emerges from this process can be used to set performance objectives and define the methods that will be used in order to measure the performance of the CEO against those objectives. The job description should be revisited at least annually and more frequently if issues arise during a performance period.

Review and assessment should be conducted around performance objectives that have been set in advance and carefully communicated to the CEO. Some of the objectives should, of course, be tied directly to performance targets established in the company's overall strategic plan and should include a mix of near- and long-term goals so that the CEO does not focus completely on hitting quarterly or annual milestones and ignore the investments necessary to build and sustain long-term viability for the company. As noted above, sustained growth of shareholder value should be emphasized. This means that the CEO should not only meet financial and operating goals but should also be fulfilling other needed strategic objectives such as launching and completing mission critical research and development initiatives to ensure that the company has access to the technology that is needed to remain competitive in the future. The board must be sure that appropriate quantitative measures of performance are set and that they can be easily tracked by the directors and the CEO. As noted above, the performance measures should be transparent thus removing any temptation for the CEO to take actions that compromise the integrity of the company's financial and business information. Other qualitative and quantitative performance factors that might be included are as follows:

- Has the CEO acted in a manner that has brought respect to the company and the office of the CEO? The CEO should be evaluated on how well he or she has done in acting as a role model of ethical behavior for the employees of the company and the actions he or she has taken to demonstrate honesty, fairness and courage while discharging his or her duties on behalf of the company. A CEO that is perceived as being an ethical leader can enhance the reputation of the company its long-term value to the shareholders.
- Has the CEO done an effective job of creating and communicating a long-term vision for the company that has resonated within the investment community and with the public at large? In addition, has this vision been effectively integrated into the

company's strategic plan and are the goals, objectives and tactics included in that plan consistent with pursuit of the vision?
- What is the leadership style of the CEO and how effective has it been in allowing the company to efficiently pursue its strategic goals and objectives? Assessment in this area should focus on the strengths and weaknesses of the other members of the executive team and the recruitment and management abilities of the CEO with respect to that team.
- Has the CEO developed a reasonable proposal for a succession plan? It is important for the CEO to be actively engaged in identifying potential candidates for the CEO position and for other positions on the executive team and to support necessary efforts to nurture successors through training and job rotation.
- Has the CEO fulfilled his responsibilities with respect to building and maintaining effective relationships with key company stakeholders including employees, business partners, investors and the general community in which the company operates? Has the relationship between the CEO and the board of directors been cordial and effective? The CEO should be expected to keep the directors informed of all major decisions relating to the company, ensure that the directors receive all information necessary for them to carry out their duties and responsibilities, and respect the need for director independence.

In addition to the performance factors that will be evaluated the board of directors must also establish the process that will be used to carry out the evaluation. A common strategy is to place responsibility for the evaluation in the hands of one of the independent directors such as the outside director who chairs the governance or compensation committee of the board. If the board has a non-executive chair (i.e., an independent director rather than the CEO) he or she would be a logical candidate to oversee the CEO evaluation. More than one outside director may be involved in overseeing the evaluation; however, care should be taken not to complicate the process by having too many people thinking they are in charge. Some companies use third-party facilitators to initiate the CEO evaluation process. It may be valuable for the facilitator to be someone with experience as a corporate director or someone who is a current or former CEO of a comparable company.

The process should begin by asking the CEO to submit an evaluation of his or her own assessment of performance with respect to the previously agreed objectives. The CEO should also be asked to describe how he or she has done in relation to the duties and responsibilities in the job description for the CEO position. The CEO assessment is often supplemented by information from other persons who interact regularly with the CEO including other members of the executive team and representatives of the company's outside auditors. Once the CEO assessment and other relevant information has been received by the director or directors responsible for the evaluation all of the independent directors should meet to consider the information and reach consensus on the evaluation that should be communicated to the CEO. During this meeting outside directors should share their own experiences in interacting with, and observing, the CEO during the evaluation period. The director or directors responsible for the evaluation should then meet privately with the CEO to communicate the views of the independent directors and the CEO should then meet with the entire group of independent directors to provide his or her feedback and discuss appropriate next steps (including revised performance objectives for the next evaluation period).

§27 Emerging trends in CEO skills and responsibilities

Most would agree with the assessment of James M. Citrin, an executive recruiter who founded Spencer Stuart's technology, communications, and media practice, that "[t]he job of the CEO has become so consuming and complex that if you actually list all the things a CEO is responsible for, no human being can do them all." Citrin argues that the appropriate and necessary response from boards of directors in the years to come is to abandon the increasing elusive chase for the CEO who is an expert at everything and instead focus on identifying and recruiting a "specialist CEO" who has demonstrated expertise in the one or two areas that are most crucial for the company and the ability and willingness to put together a strong supporting team to provide leadership in other areas.[14] Citrin has also offered the following five profiles of desirable specialist skills that board members could presumably use as a point of reference in any CEO search and selection process:

The Brain: A CEO who truly qualifies as an "innovator-in-chief" by way of his or her technical or educational background in relevant science or design areas. This type of person should have a leg up in identifying breakthrough technologies and in directing and motivating the company's engineering and R&D functions. A typical trait for this type of person would be continuously devouring the latest scientific papers and distributing the details and insights throughout the company.

The Ambassador: Boards are beginning to expect that CEO candidates will have deep and broad experience in important emerging markets such as Brazil, China, India and Russia that goes beyond simply "doing business" in the area to include personal and professional relationships that ensure access to key local players such as government officials, ruling families and powerful businesspeople. Using the "dealmaker" skills described below, the CEO should be positioned to create strong alliances with local companies in these markets. A short rotation through the capital of an industrialized nation with a fully developed market (e.g., London or Paris) will no longer be adequate in terms of "international experience."

The Dealmaker: Boards will continue to covet CEO candidates who can hold their own in a pressure-filled and complex global deal-making environment. As companies expand and shift their focus toward new opportunities the CEO must be adept at consummating important acquisitions, often in competition with true specialists from private equity firms, and in spinning off non-core assets that are no longer part of the company's overall strategic plan. Done properly, deal-making can facilitate a complete re-positioning of the

[14] See "The Five Faces Of The 21st Century Chief" (August 20th and 27th, 2007) at http://www.businessweek.com/magazine/content/07_34/b4047408.htm

company in a relatively short period of time; however, it is a high risk proposition that requires substantial focus and background and expertise in multiple disciplines.

The Conductor: In much the same way as a conductor oversees the work of the orchestra, a CEO will need to be able to define and lead a complex organizational network that will include multiple internal business units and various external strategic partners. The CEO will need to ensure that departments, functions and business units communicate and collaborate effectively since development and commercialization of new products and services will require a multi-functional team effort. Moreover, companies will look more and more like networks as companies forge relationships with outsiders for important functional activities such as R&D, procurement, manufacturing and distribution. It is up to CEO to make sure that all the pieces work together smoothly and efficiently.

The Casting Agent: Starting with other members of the executive team, the CEO of the future must be appreciate the value of recruiting good people and keeping them satisfied so that they will continue to work for, and contribute to, the success of the company. The struggle to attract and retain talent is getting more difficult everyday and the CEO must understand what his or her company will need to do in order to be competitive in the human resources area. Not only must companies find the right people they must also be put them into the right positions and given the resources and training to make the most of their talents.

If the board of directors were to shift their recruiting focus in the direction favored by Citrin it would result in a fundamental structural change at the top of the management hierarchy including a strong, almost co-equal, role for the president/COO and more direct communications between board members and the “CEOs” of other strategically important functions such as finance, R&D, HR and marketing. While there are clear advantages available to companies that can adopt this sort of model there are also real uncertainties as to how realistic is it to expect that a CEO would be willing to offload substantial authority in other specialist areas to different members of a larger "executive suite".

Every CEO, regardless of the company’s line of business, ultimately finds that the growth in the number of employees and projects makes it increasingly difficult for him or her to stay involved with day-to-day details of operations. This can be a frustrating, yet necessary, step in the evolution of the company and the person involved and it is necessary for him or her to learn how to trust the other people in the company organization who will be handing the details. For example, the initial question asked by the CEO may change over time from “How?” to “What?” and then finally just to “Who?, at which point the CEO will be relying on a senior manager or other key employee, or a particular group or department, to come up with the strategy and implementation plans necessary to deal with a particular opportunity or problem in the company’s business environment. This does not mean that the CEO must or will completely delegate details to others; it simply means that the CEO must learn to be selective about the areas in which he or she will spend the most time. Most successful CEO’s will have one or more projects in which they are heavily engaged because they recognize the area as being of significant importance to the company and they believe that they can make a substantial personal contribution. Intense involvement, including a large amount of interaction with other managers and employees, is a good way for a CEO to train others about how he or she sees the company and its preferred cultural values.[15]

§28 The crucial role of the CEO in CSR activities

Surveys, such as one completed by Boyden in 2017 among adults in the United Kingdom, repeatedly confirm that the public strongly believes that the CEO must play an active role in the corporate social responsibility ("CSR") activities of his or her company and act as a spokesperson for those activities.[16] Participation and engagement by employees throughout the organization is essential for effective CSR implementation and the CEO is the only person in a position to communicate and demonstrate the values associated with CSR in a way that will integrate CSR into the corporate culture and the way that employees work on a day-to-day basis. It should be noted that CSR has become a significant driver of employee engagement, particularly among Millennials who are more willing to accept lower wages in exchange for working with a company committed to sustainability, and that the CEOs efforts to engage employees in this area will improve the company's ability to attract and retain talented workers. CEOs must also develop the soft skills necessary to communicate and engage with multiple stakeholders, each of which has different values and attitudes about how society should function and the role that the firm should play. CEOs must be able to engage in civil dialogue, approach the problems and challenges that are raised by stakeholders with an open mind and a focus on identifying and implementing innovative solutions and developing tools that will help measure and demonstrate the effectiveness and value of the company's CSR initiatives.[17]

In Practice

CEO's Guide to Being an Effective Sustainability Leader

Since studies are clear that the attitudes, actions and skills of the CEO are essential to the success of CSR initiatives and ensuring that they are perceived positively among the various stakeholder groups of the company, the CEO must be prepared for his or her role and understand and cultivate the appropriate mindset. For sustainable entrepreneurs, enthusiastic passion for environmentally or socially responsible business activities comes naturally, and he or she will willingly jump into the fray and engage with stakeholders from the very beginning of the venture. However, in order for all this work to be effective, and sustainable and credible, the CEO needs to understand certain "best practices" that have been identified by consultants, scholars and CEOs themselves.

CEO Selection and Allocation of Founders' Duties

One of the first things to consider, and arguably the most important decision for the founders to make, is

[15] Based on "The Institutional Yes," Harvard Business Review (October 2007), 82.
[16] CEOs and the New CSR Priority (Boyden Executive Monitor, September 2017), https://www.boyden.com/media/ceos-and-the-new-csr-priority-2909935/index.html
[17] For detailed discussion of corporate social responsibility, see "Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

just who among the initial drivers of the company will assume the position of CEO. In many cases the choice is obvious, but what may seem to make sense in the early days of the company may not be what is necessary as the business model evolves and more and more stakeholder engagement, particularly with investors, becomes necessary. One thing that cannot be overemphasized is that good CSR-related skills are in addition to, not in lieu of, top-notch leadership and management competencies. It is not sufficient to be passionate about the "cause" if the CEO is not able to grasp basic principles of strategy, finance, sales, marketing and technology.

Another thing to consider is how the CSR-related energy and skills of the members of the founding team who are not the CEO can be leveraged while not muddying up the messaging from the CEO. The CEO needs to continuously communicate with the other members of the founding team, as well as senior managers brought in to assist with launching the venture, to understand their views on the mission of the enterprise and ensure that everyone is speaking in the same voice when interviewing prospective employees, talking to investors, engaging with strategic partners and going about their business in the communities in which the company is operating. Sometimes new companies will appoint one of the founders to serve as "chief sustainability officer". This is fine; however, the position should be designed to support execution of the CEO's vision and decisions regarding CSR rather than a way to separate those issues from the CEO's portfolio.

Whoever is selected as the CEO needs to carefully consider how his or her background will be presented to the company's various stakeholders during the engagement process. Stakeholders will seek out authenticity and practical experience when assessing the skills and trustworthiness of the CEO and the story line needs to be settled well in advance of what will quickly become a tumultuous schedule of meetings and other communications with stakeholders. The "best" scenario is a CEO who can describe how he or she came upon a particular environmental and/or social problem or opportunity and provide his or her experiences in identifying and developing solutions that can credibly form a foundation for a viable business. The CEO also needs to be able to demonstrate how his or her prior professional experiences and network align with the actions that will need to be taken in order for the company to fulfill its mission.

Public Relations

While a worthy cause is important for sustainable entrepreneurship, sustainability of the business itself depends on developing and maintaining a loyal customer basis that will buy the company's products and services and recommend them to others so that the company can survive and fulfill its stated mission. Surveys show that customers will pay a modest premium for sustainable products and services from brands that are trusted and known as being environmentally friendly and for their social value. As such, the CEO needs to understand and practice the tools of public relations in all of his or her interactions with internal and external stakeholders. A useful set of guidelines are the Page Principles, which have been developed by the Arthur W. Page Society to help communications professionals, including CEOs, to practice public relations effectively. Let's see how these seven principles, all of which were based on the premise that all stakeholders, not just shareholders, needed to be taken into account, might be used by a CEO in the context of executing CSR initiatives:

- *Tell the truth:* Trust begins with confidence that the CEO is telling the public the truth about what is happening with the company with honesty and good intentions. It is incumbent on the CEO to provide an ethically accurate picture of the company's character, values, ideals and actions in every dialogue with stakeholders, even when the news is not as good as the CEO would like.
- *Prove it with action:* CSR is often quickly dismissed as a "PR stunt" and such a hasty verdict is warranted in many cases when a company's CSR initiatives are "all talk and no action". The CEO needs to remember that the public perception of the company's CSR initiatives will be determined 90% by what it does and just 10% by what it says and this means that concrete CSR actions must be on the company's strategic agenda from the very beginning, rather than being deferred until there is more money and other resources available.
- *Listen to stakeholders:* Stakeholder engagement needs to be one of the most important priorities for the CEO and this means adding regular and personal dialogue with key stakeholders to the CEO

already full plate of other activities. The need to listen to stakeholders and engage in inclusive dialogue is what makes being a CEO of a sustainable venture extremely challenging; however, the CEO needs to understand what each stakeholder group wants and needs from the company and keep top decisions makers and other employees informed about stakeholder reaction to the company's products, policies and practices.

- *Manage for tomorrow:* Corporate sustainability is based on a long-term perspective for the business and the CEO of a sustainable enterprise needs to be particularly tuned in to managing now only for the present moment but also for tomorrow and the future generations of employees and leaders of the company. It is the duty and obligation of the CEO to proactively identify and remediate practices that might undermine the company's goodwill with its stakeholders and to anticipate both challenges and opportunities relating to the environment and social issues that need to be addressed in the company's strategies.
- *Conduct public relations as if the whole enterprise depends on it:* There is no better way to prioritize the importance of stakeholder engagement than to act as if the success and survival of the entire enterprise depends on it. While the CEO may naturally feel that the interests of investors should be prioritized when setting the company's strategy, no decision should be made without considering the impact on all of the company stakeholders, since without their support a strategy cannot succeed regardless of how well funded it might be. Public relations in this context is not just about marketing, it is a full-blown management and policymaking function designed to identify and consider the diverse views, values, experiences, expectations and aspirations of all stakeholders.
- *Realize an enterprise's true character is expressed by its people:* It is well-accepted that the CEO is expected to set the appropriate "tone at the top" and the CEO needs to recognize that every employee, active or retired, is involved with public relations and that their words and actions will shape the public's opinion of the company. The CEO should advocate and demand respect, diversity and inclusion in the workforce and support each employee's capability and desire to be an honest, knowledgeable ambassador to customers, friends, shareholders and public officials. To do this, the CEO must continuously engage with employees throughout the company on fundamental matters such as "mission" and "vision" so that employees understand how to act and how to explain the company's purpose for being to outsiders.
- *Remain calm, patient and good-humored:* Stakeholder engagement is not always pleasant and the CEO will often find that the demands and expectations of stakeholders are beyond what the company can reasonably promise or deliver. In those situations, the CEO must remain calm, patience and good-humored and focus on listening to the legitimate concerns of stakeholders and provide stakeholders with reliable information and reasoned analysis with respect to the decisions that are made, always being mindful of the impact of such decisions on all of the stakeholders.

Ethics and Social Responsibility

Ethics and social responsibility need to be important priorities for the CEO. He or she must have and express personal values that support ethical and socially responsible behavior by the company and its employees and must ensure that those values are integrated into the company's culture and communications with external stakeholders. The specific value set of an effective CSR-focused CEO should include the following:

- Business has an environmental and social responsibility beyond making a profit and management must identify and articulate the specific social responsibility that the company will seek to address.
- Although output quality and profitability is essential to the long-term success of the firm, being ethical and socially responsible is the most important thing a company can do and is essential to the company's long-term profitability and sustainability.
- Corporate planning and goal setting sessions should include discussions of ethics and social responsibility and decisions regarding operational tactics should never include bending or breaking the rules in order to achieve a profit.
- Ethical and socially responsible behavior should be tracked and measured and factored into assessments of the overall effectiveness of the company.

- Ethics, social responsibility and profitability can be compatible and ethics and responsibility are essential to remaining competitive in a global environment.
- Operational excellence is an important driver of how a company is perceived; however, engagement, purpose, integrity and ethical and socially responsible commercialization of products and services have become just as important, if not more important, in the eyes of the public and the way they assess a firm's reputation.
- A company's first priority should be employee morale and achieving and maintaining fluent communication between employees and management so that employees can comfortably share their ideas and opinions and there is a cooperative atmosphere that benefits group success.
- Taking the ethical and socially responsible approach is always good business even when the survival of the business appears to be at stake and there is a temptation to cut corners and cheat.
- Stockholders can, and must be made to, understand how ethical and socially responsible behavior will enhance the long-term value of the company and their ownership stake therein.

Operationalizing CSR

Actions speak louder than words and one of the actions that the CEO can take from the very beginning of the company's journey is establishing and maintaining CSR practices and policies that are compatible with the company's size and resources. Many sustainable entrepreneurs argue that they simply have too much to do during the early days of their firm—finishing the first product, hiring new employees, talking with investors to raise seed capital and trying to engage with strategic partners—to worry about implementing formal policies and procedures. They often say that there is no point since it is impossible to know how quickly the company will grow and whatever is agreed upon in the first few months will be obsolete by the end of the first year. While it is true that things are changing quickly during the launch stage, it can be the best time to begin laying the foundation for ethics and social responsibility throughout every aspect of the organization and its activities.

At a minimum, the CEO should establish, in consultation with board members, other members of the senior management team and a representative group of employees from throughout the organization, a mission statement that explicitly incorporates ethical and socially responsible behavior and a concise code of ethics or conduct that can be used by everyone as guiding principles for their decisions and as an agenda for training and orienting new employees about the organizational culture. Environmental and social responsibility should also be explicitly woven into strategic planning and performance metrics and the CEO should make sure that the company's sustainability initiatives are tracked formally and reported on regularly to all of the company's stakeholders, even if the company is not yet ready to adopt one of the sophisticated reporting frameworks that have emerged and are now being regularly used by larger businesses. Performance relating to environmental and social responsibility should be formally incorporated into compensation arrangements for the CEO and other senior executives from the very beginning since research shows that CEOs who are compensated based only on economic factors are less motivated to push CSR initiatives. Finally, a compliance program to satisfy specific formal legal requirements should be established, not only for its own sake but as a good first step in implementing one or more of the voluntary certification standards that may be applicable to the business (e.g., ISO 9001 for quality management; ISO 14001 for environmental management; OHSAS 18001 for occupational health and safety and ISO 26000 for social responsibility).

Innovative Ways to Practice CSR

CEOs should look for new and innovative ways to conduct CSR, strategies and methods that are more in line with what businesses do best on a day-to-day basis. For example, rather than replicating the same menu of CSR initiatives that other companies are doing, the CEO should look for ways that their companies can specialize in areas that are consistent with their competitive advantages in the marketplace. Not every company can be like Ben & Jerry's and have a social mission at the core of their brand, but most businesses have a core competency they can deploy, such as the way that UPS has provided logistics support to help deliver emergency supplies. Aggressive collaboration with other companies, and with government policymakers, is another way that companies can have a great environmental and social impact. CEOs building and operating companies in the technology sectors, which require fewer employees than traditional businesses, can nonetheless make a valuable contribution to society by participating in effort to retrain displaced workers so they can be competitive in the new job market. Retraining programs can also help the CEO fill positions at his or her company, since many technology companies are still struggling to find qualified applicants for all of the activities they need in order to be successful. The bottom line is that CEOs should continuously think about how their companies can leverage their core competencies in innovative ways to have a positive impact on society and mitigate and reduce the potential negative effects of their business activities.

Engagement

Gone are the days that the CEO can simply hunker down and spend all of his or her time on internal issues and activities such as product development, manufacturing and human resources issues. It is clear that that a substantial slice of its earnings and opportunities are dependent on the relationships of the company, and its CEO in particular, with external stakeholders. Research confirms that while operational excellence, including returns to investors, remains an important driver of a firm's reputation among the general public, other factors have emerged as drivers of brand goodwill, and thus potential overall value, including engagement, purpose, integrity and the environmental and social impact of the company's products and services.

As such, stakeholder engagement has become a top priority for CEOs and he and she must understand how to do engagement efficiently and successfully. In the past, a CEO would delegate CSR to another person or group and the primary focus was often on philanthropy or modest collaborations with outside groups interested in environmental and social issues and problems. Now the CSR efforts of the company must be integrated into each of its core commercial activities, as well as its overall strategy and operational planning. Even the CEOs of the companies that have enjoyed the most financial success in recent years, such as Tim Cook of Apple, have only a limited amount of time to enjoy increases in revenues and earnings and the development of new products since they must now deal with intense and continuous criticism of the environmental and social impact of their operations and calls for operational changes thought by others to be necessary to achieve diversity and address income inequality.

A good general rule regarding engagement is to authentically communicate often with all of the company's key stakeholders and do so in a way that stakeholders can trust that their concerns and ideas are being heard and considered seriously. The CEO needs to understand that the company's agenda for CSR cannot be dictated by the company and must be mutually agreed upon by the company and each of its stakeholders since CSR has only limited value if it is not perceived by stakeholders as being responsive to their needs and expectations. That said, the CEO must prioritize his or her CSR activities, and the associated engagement, around the issues that are most important for the long-term success and sustainability of the company. For some companies, this may mean getting involved in developing new solutions for environmental problems, which means that the CEO will need to become engaged in industry-wide discussions and work with customers on ideas for new products and employees on how to help them develop the skills necessary to work with new technologies. Many companies have focused on diversity and ensuring that everyone has better opportunities for employment with the company and advancement to higher levels of the organization. Whatever the issue might be, the CEO needs to be clear about the purposes and goals of the company with respect to CSR, set the proper "tone at the top" and be able to explain to everyone involved with the company, inside and outside, why pursuit and attainment of those goals will be in the best interests of all of the stakeholders. This is particular true for employees since motivated and engaged employees will be more productive and loyal and help the company deliver better results for customers and shareholders.

While discussions of CSR engagement are typically focused on how companies can develop and maintain relationships with stakeholders beyond shareholders, investors still remain first among equals in the stakeholder universe and CEOs need to be particularly careful in how they engage with investors on CSR initiatives. For a long time, caution was needed because many investors were skeptical of their portfolio companies deviating too much from a focus on financial performance; however, the pendulum has swung dramatically among institutional investors that now expect CEOs to develop and lead appropriate CSR initiatives and establish CSR reporting mechanisms. CEOs are not expected to be experts on a particular environmental or social issue, but they do need to have a plan and be able to demonstrate to investors that they have invested adequate resources for the company to fulfill its public commitments on environmental and social topics. Another important role of the CEO in the eyes of investors is oversight of the company's organizational culture and human capital. The CEO should be able to explain to investors how much time and effort he or she spends in talking with employees from all levels of the organization and disseminating a strong message regarding the company's commitments to environmental and social goals. Investors also want evidence that the CEO is creating and maintaining a diverse group of senior managers and other key decision makers and is implementing compensation and performance measurement systems that give due weight to contributions to CSR. Finally, CEO should be prepared to share with large investors the results of the company's own assessment of its CSR initiatives and processes and the steps that the CEO is taking to make necessary improvements in the way in which the company conducts its business.

Personal Values and Risks

While most of what a CEO does with respect to CSR occurs in the public domain, there are very personal issues and risks that the CEO also needs to consider. First of all, there is no such thing as privacy for the CEO when a crisis occurs with respect to whether or not his or her company has failed to fulfill expectations with respect to ethics and social responsibility. The CEO's official actions will be scrutinized and more likely than not someone will pry into personal matters such as whether the CEO's lifestyle is inconsistent with concerns about income inequality. By the way, some studies have found that companies with materialistic CEOs have lower CSR performance scores. Second, high profile CEOs may be expected to take positions in social and political controversies, even getting involved is not directly related to a specific CSR initiative or goal of the company. Many CEOs, while comfortable with certain social issues, prefer not to become regular participants in the marketplace of opinions; however, it has been argued that CEOs are in a unique position to frame the dialogue on certain issues and that CEOs that take a position on a controversial issue can actually bring more new business to the company. Finally, while CEOs that champion CSR initiatives are generally praised for such work when things are going well, research shows that if a CEO has invested in CSR and the firm performs poorly, he or she is much more likely to be dismissed.

Note on Sources: The Arthur W. Page Society considers itself to be the world's leading professional association for senior public relations and corporate communications executives and educators who seek to enrich and strengthen their profession. Membership in the Society consists primarily of chief communications officers of Fortune 500 corporations and leading non-profit organizations and the CEOs of the world's foremost public relations agencies. The discussion of the principles relating to "public relations" is adapted from https://awpagesociety.com/site/the-page-principles

§29 CEO succession planning

Selection of the CEO is one of the more important responsibilities of the board of directors and since no CEO will occupy the position forever the board must establish procedures for ensuring that CEO succession issues are handled smoothly and the board makes the best choices for the overall good of the company. The pressures in this area have increased substantially as directors have been held more accountable for CEO performance by shareholders, employees and other stakeholders. CEO succession has also become more relevant as turnover in the position has increased and statistics in recent years among public companies show that roughly one in seven companies make a change at the top every year. Not all changes are due to poor performance since attrition occurs naturally as the CEO reaches retirement age or simply decides voluntarily to step aside. However, studies show that about one-quarter of the searches for a new CEO arise from non-routine circumstances.

The National Association of Corporate Directors ("NACD") commissioned a 2006 survey among directors of companies that had gone through a change of CEO and identified the following list of "10 Best Practices for Board Involvement in CEO Succession": plan three to five years out; ensure full board involvement; establish an open and ongoing dialogue and annual review; develop and agree on selection criteria; use formal assessment processes; interact with external candidates; stage the succession but avoid horse races; develop internal candidates rather than recruiting externally; have the outgoing CEO leave, or stay on as chair for only a limited period of time; and prepare a comprehensive emergency succession plan. An earlier NACD report focused on the various responsibilities of the board of directors, the incumbent CEO and other members of the executive on the succession process. Among other things, directors were urged to create a committee of the board to oversee the succession process, make sure that succession was a regular part of the board's agenda during the course of the year and stay in touch with other members of the incumbent executive team. Directors should not ignore the need to conduct a regular performance review of the CEO at least once a year and should make sure that succession planning is one of the areas with respect to which the incumbent CEO is evaluated. As for the incumbent CEO, he or she should actively participate in the succession process, consult outside models of succession and make sure that the board of directors has open access to executive team members. Finally, executive team members should be encouraged to provide advice to directors regarding the desired attributes of candidates for the CEO position.

Notice should be taken of the growing interest among various groups of public company shareholders to force companies to be more forthcoming about their succession plans for their CEOs. Historically, companies have resisted shareholder proposals on this issue and have excluded them in reliance on Rule 14a-8(i)(7) under the Securities Exchange Act of 1934 because such proposals related to termination, hiring or promotion of employees. However, in October 2009 the Securities and Exchange Commission ("SEC") published Staff Legal Bulletin No. 14E (CF) stating its view that companies may generally not rely on Rules 14a-8(i)(7) to exclude a proposal that focuses on CEO succession. The SEC observed that "one of the board's key functions is to provide for succession planning so that the company is not adversely affected due to a vacancy in leadership" and that "CEO succession planning raises a significant policy issue regarding the governance of the corporation that transcends the day-to-day business matter of managing the workforce". As a result, shareholders are now being given the opportunity to vote on proposals that their companies adopt and disclose written and detailed CEO succession planning policies with specified features, including that the board develop criteria for the CEO position, identify and develop internal candidates, and use a formal assessment process to evaluate candidates.

Developing Inside-Outside Leaders

A number of researchers, including Joseph Bower, a professor at Harvard Business School, and Jim

Collins, the author of "Good to Great", have argued that companies perform better when they appoint insiders as their CEO. However, the problem that many companies face when it comes time to appoint a new CEO is that they have been managed with leadership development as an objective, which means that they often feel they have no choice but to turn to an outsider to fill the position. Bower observed that both insider and outsider CEOs have strengths and weaknesses at the start: insiders know the company and its people, but are often blind to the need for radical change; and outsiders see the need for a new approach, but are able to effectively make the necessary changes because they don't know the organization or industry sector well enough. The answer, according to Bower, is a dedicated effort by companies and aspiring leaders within those companies to nurture "inside-outside leaders", described as "internal candidates who have outside perspective.

According to Bower, companies need to have a pool of CEO candidates who have the following four core skills necessary in order to move the firm forward and produce the desired results: the ability to judge where the world and the company's markets are headed, and frame a vision of how the company should reposition itself; the ability to identify (and if needed recruit) the talent that can turn this vision into reality; an understanding, in a deep and substantive way, of the problems the company faces; and comprehensive knowledge of how the company really works, including being fully embedded into the firm's administrative inheritance and deep and trusting relationships with key players. While every CEO needs to have a clear outside perspective, three of the four skills mentioned by Bower require extensive inside knowledge that usually has been accumulated over a long span of time while performing roles and completing activities that expose a person to challenges specific to the company and its industry.

Bower argued that his research supported the proposition that:

> ". . . [T]he best leaders are … people from inside the company who have somehow maintained enough detachment from the local traditions, ideology, and shibboleths to maintain the objectivity of an outsider. They know the traditions and the people of the company but also know how those will have to change. They know what best-in-class looks like as well as how the class will change. They're able to look at the organization's administrative heritage as if they had just bought the company."

Companies and candidates for leadership positions have a role to play in nurturing inside-outsider leaders. From the company's side, it all begins with recruiting from a diverse pool of individuals who are both highly talented in their area of specialization and have the potential to be general managers. Hopefully, these individuals, given the right opportunities, will develop the ability to manage effectively in the context of the company's strategy, systems, and culture, which means they will become good "insider leaders". The challenge for the company is to provide these candidates with resources and support to develop an outside view, and this should be a core goal of the company's leadership development program. However, prospective leaders need to manage their own development from the beginning of their careers with the company, and Bower provided the following list of questions that aspiring CEOs should continuously consider as they move down their paths within the company and take on different roles:

At Recruitment:

- Why are you being hired? Is it just for a job today, or is there a career path?
- Is this a company where talented people stay for many years? If not, will the experience it provides make you attractive to future employers?
- How will the company help you grow? What pattern of assignments will you get? Will you have time to learn?
- What kind of mentoring will you receive?
- What kind of training is offered? What is done in-house? What is done through outside programs?
- How soon can you run a business? If you don't get general management responsibility early, you can't learn the job.
- Is this a cookie-cutter program, or are young people given the chance to try out new ideas?

Once You Are On The Job:

- Do you meet your numbers?
- Do you help others? Are you developing their talent?
- What do you do for your peers? Are you just their in-house competitor?
- When you manage up, do you bring problems—or problems with possible solutions?
- Are you transparent? Managers who get a reputation for spinning events gradually lose the trust of peers and superiors.
- Are you developing a group of senior-manager friends who know you and are willing to back your original ideas with resources?

Self-Development:

- Is your network expanding outside your division? What about outside the company? Have you visited with customers, vendors, and related organizations? If you have a union, have you ever talked with its leaders?
- Do you know individuals in your community who aren't businesspeople? You can learn more about what you don't know from them than from people just like you.
- Do you attend seminars or expand your general knowledge beyond your immediate business?
- Are you involved with the community in some way? You can develop many leadership skills by working with an outside organization.

Living a Balanced Life:

- Are you there for your family? Managing can be lonely—support of family can be invaluable.
- Have you cultivated a relationship with someone—spouse, close friend, mentor—who tells you the truths you don't want to hear? The higher you rise in your organization, the more your colleagues will tell you what they think you want to hear.

The questions above shed further light on the role that the company can play in the development process for its prospective leaders. In particular, performance evaluation, and support and feedback from experienced mentors, is essential for leadership candidates as they wind their way through a series of increasingly complex assignments over a number of years. Candidates needed to be rigorously trained in planning, budgeting, performance evaluation and compensation in order to understand how to develop and present deliverable plans and become accountable for execution of those plans. Mentors also need to work with leadership candidates to nurture, yet temper, their tendency to think "outside the box", a valuable outside trait yet one that must be managed carefully so as to not tear to quickly at the inside culture and established ways of doing things. As Bower explained: "The trick is to give the young manager the time and leeway to turn a new idea into a great business without giving him the rope to hang himself. The mentor must make sure resources are adequate but not excessive, dole them out stage by stage, and then wait and see. The mentor, in other words, is a kind of venture capitalist, teaching potential leaders how to make new ideas work."

Source: J. Bower, "Solve the Succession Crisis by Growing Inside-Outside Leaders", Harvard Business Review, 85(11) (November 2007).

About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project (www.seproject.org). In addition, Alan's prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is on online-only product available and featured on Thomson Reuters' Westlaw, the world's largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 40 books on sustainable entrepreneurship, management, business law and transactions, international law business and technology management for a number of publishers including Thomson Reuters, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, CCH and BNA. Alan has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Boalt Hall, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on a diverse range of topics including corporate finance, venture capital, corporate law, Japanese business law and law and economic development, He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan, his publications or the Sustainable Entrepreneurship Project, please contact him directly at alangutterman@gmail.com, and follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/).

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts.

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