

Board Leadership: A Mandate to Develop Future Leaders

By Andrea Huff

Virtually all corporate board charters cover management compensation, audit, finance, and the work of governance and nominating committees. However, many charters—and hence boards of directors—may be neglecting one important element: how the board works with the organization to best attract, develop, and retain a strong leadership bench and build leadership capability for the future. A team of superior leaders at all levels is one of the most critical ways that a company can outperform competitors and potentially dominate its industry.

This raises questions that organizations and their boards need to consider:

- What is being done to proactively and purposefully develop exceptional leaders for the future?
- Does it make sense to use existing resources—board directors—to help cultivate the strategies and tactics used to develop internal talent, thereby ensuring that high performers receive what they need to succeed and, in turn, help the organization do the same?
- What makes leadership development a standard agenda item for some boards and not for others?
- Why do some place such an emphasis on the importance of succession planning—and not just for the CEO?
- When it comes to helping senior management and levels below prepare for greater responsibility and move into more senior roles, how do directors see themselves leading or participating in the process?

Director Summary: Succession planning is more than just deciding who will be the next CEO. Boards should be proactive in developing leadership skills throughout their organization by developing a culture of accountability; coaching young management; and developing both formal and informal structures that identify and enhance leadership potential.

Directors' Current Involvement

Boards are confronted with new challenges that require a focus and intensity as never before. Sarbanes-Oxley (SOX) certainly shifted the dynamics. The chronic pressure and the extraordinary demands coming from SOX around control and compliance issues have required significant attention from directors.

Samuel C. Scott, III, chairman of the board, president, and CEO of Corn Products International, said, "The biggest challenge occurring today is that corporate governance is becoming all consuming. More time than ever before is spent addressing this issue."

Beyond traditional duties of nominating, corporate governance, and fiduciary responsibilities, certainly boards do discuss key individual leaders. This often occurs as an executive compensation committee discusses and decides the issue of who deserves what, the primary concern being on executives' current performance and how each will be compensated for their work. Do these discussions focus on executive talent and the related process around building high-potential performers for future leadership roles? For many boards, the answer is yes. For others, the focus is less intentional. As one director said, and others echoed, "I've not seen this addressed in enough of a formal way."

Boards need to encourage leadership development overall, but opinion about the extent to which directors should be formally involved varies. "I have not heard a lot of board-level conversation about leadership development per se. The focus has been, 'How do we restructure and reorganize to deliver? How do we re-deploy existing skills?' But not with the intention to help equip people for jobs or make sure they get certain kinds of training," said one director.

Does this mean there are missed opportunities? Yes—if board talent and company experience aren't leveraged to develop future leaders. Establishing a simple yet effective way for board members to add leadership development to their charter is essential.



Companies with the most successful succession and leadership programs look at development from an organizational systems perspective.

Succession Management at All Levels

For most directors and senior managers, few challenges are as difficult as finding and training a company's next CEO. Some companies begin identifying and developing potential successors several years before the transition occurs. For others, the leadership handoff is not as proactively managed.

"McDonald's had a succession plan in place—James Cantalupo died and Charlie Bell took over. Yet Charles Schwab, in a surprise move by the board, dismissed its chief executive, David S. Pottruck, and handed the company's reins back to founder and chairman Charles R. Schwab. These examples should raise the question for all companies: Is the board thinking about succession? Do we have a plan?" said Wayne Wilson, independent business advisor, director of Cytac Corporation and Edgewater Technology, Inc., and former president and chief operating officer of PC Connection, Inc.

Yale Professor Jeffrey A. Sonnenfeld said, "Some good examples of developing company talent include UPS and McDonald's. At UPS, their general counsel has worked positions held by hourly employees. At McDonald's, their current CEO is someone who has also worked in several different internal functions from engineering, strategy, and airline management, to domestic package operations and international operations." Dr. Sonnenfeld is founder, president, and CEO of Yale's Chief Executive Leadership Institute. He currently serves on the boards of The Street.com and Gevity HR, and is co-editor of *Leadership and Governance from the Inside Out*, a book with thoughtful viewpoints from leaders on corporate governance.

Unfortunately, even when an organization does have a succession management program in place, it doesn't always function especially well to deliver on business strategy. Both leadership development and succession processes have to be incorporated into the strategic business plan in order to have any real impact.

Companies with the most successful succession and leadership programs look at development from an organizational systems perspective. These companies also think broadly about succession management, consider-

ing more than only the top tier of executives. This requires examining both the individuals who might qualify for leadership programs, and the systems in place at all levels of the organization that serve to either hinder or accelerate executive development.

Finding and Growing Great Leaders

How do board members develop an effective point of view on leadership development and ensure that the companies they serve are taking the right steps? Even if the subject is included in the board's charter, how do individual directors begin to have a relevant perspective on the topic?

It is said that leadership can't be taught, but it can be learned. Ronald A. Heifetz, co-founder of Harvard University's Center for Public Leadership, argues that instead of telling people what to do, real leaders focus on helping people find their own way through "adaptive challenges"—problems without readily apparent solutions.

Here are some approaches that board members can take to help grow leaders internally:

Culture. Go beyond just creating a leadership development or succession management program. Create a culture where everyone is accountable for providing solutions to business issues. Don't fall into the trap of expecting managers to be the only problem solvers or the ones with the right answers. This doesn't push the rest of the team to develop leadership muscle or be accountable.

Coaching. Avoid the urge to place blame when individuals experiment with new leadership behavior that doesn't work perfectly. Train managers to coach behind the scenes to emphasize the learning, not only the results that are achieved. Don't assume that, after you've delivered the message to managers, "It's your job to develop and coach your direct reports," it will happen. Most top-performing managers did not get to the level they are by developing others. The organization needs to put a process in place to help them learn these skills.

Challenges. Place people in "informal" leadership roles on a task force or project that requires them to stretch their abilities. Evaluate them not only on their business acumen, but also on their ability to influence others. Give them responsibilities to solve business challenges that are different than those they have dealt with before and above the level at which they are currently functioning.

Formal programs. Invest in more formal coaching, mentoring, and developmental programs that begin at the top and cascade to lower levels. These programs need to connect directly to executing the business plan. At a minimum, create some type of "fast track" development plans for high-potential employees. And don't limit the definition of high potential to only those who have already proven themselves. Examples of programs include:



- Individual coaching and mentoring from both internal managers and external leadership consultants and coaches.
- Structured team and peer coaching and internal collaboration.
- Leadership simulations directly tied to current business challenges.
- A combination of modalities: on-the-job rotational assignments, input from trusted advisors, and rigorous learning activities.

Rewards. Create criteria to measure and reward managers who develop their direct reports in the same structured way that financial and operational excellence is recognized.

Finally, it is extremely powerful when the board challenges the organization's top executives to identify and develop other leaders. The management team can tap internal or outside resources to help create the strategy and execute the programs, but just advising the senior team that the board is focusing on this issue will send a compelling message.

Additional Board Involvement

"The challenge around boards addressing leadership development is threefold," said Sonnenfeld. "Start seriously considering insiders as candidates, begin selecting them, and then show the willingness to get to know them at pre-board meeting dinners and other functions. Instead of talking about politics or the weather, actually get into discussion about the company. It's helpful if a tutorial is provided for some board members so that they know how to ask the right questions. Equipping board members to do a better job is crucial."

"Some of the best practices of boards I've served have included periodic reviews of up-and-coming talent. Who are the top people? What are the plans for them in their earlier years? It's important knowing who the people are—and thinking deeply about how their career can be developed," said John E. Pepper, former chairman of the board and CEO, the Procter & Gamble Company, and director of Xerox, Motorola, and the Boston Scientific Corporation.

Three immediate steps a board can take to become more actively involved with leadership development and succession are:

- Add leadership development to the board charter and communicate to the board and management team the importance of developing current and future leaders.
- Ask the CEO and senior team to report at meetings on progress being made with the leadership and suc-

Instead of telling people what to do, real leaders focus on helping people find their own way through "adaptive challenges," problems without readily apparent solutions.

cession initiatives that are in place, including an outline of future development activities.

- Ensure that leadership programs are more than training classes or a "check the box" kind of succession program. Any development should build directly on the strategic goals of the business and be measured in terms of both behavior changes and business changes.

Boards will become more involved if the process is simple and they can see a direct payoff. There is often the paradox of needing to focus on short-term financial results for the viability of the company and, at the same time, address a talent-management gap. This makes it very helpful to have a board-level point of view, one that is an arm's length removed from business operations. Board members who do not work on a daily basis with senior leaders can also offer a more objective perspective to help evaluate and develop these and other executives.

Conclusion

The CEO and board need to recognize and commit to planning and executing a leadership-development strategy, however broad or individually focused it may be. Also, with today's increased focus on compliance, directors are often being asked to vouch for company ethics, including the organization's leaders. Whether the board or any of its directors attempt to personally influence individual or organizational leadership development, the first step needs to be: Encourage the management team to make it a top priority.

Every director and board wants to be associated with good governance. The development of leadership talent is one of the most important ways a board can help ensure the organization it is serving is and will be effectively led. Breakthrough business results require breakthrough leadership. ■

Andrea Huff is executive vice president and managing director of leadership consulting at Lee Hecht Harrison. Ms. Huff may be contacted at andrea_huff@lhh.com.