

Board Effectiveness Insights

Chapter 7 / Version 1.0

March 2006

CLIENTS

The following is a partial list of the organizations served by BEP's managing partners, as consultants or executive leaders, prior to or since forming BEP, in 2002.

American Express
American International Group
Aon
AT&T
Bank of America
Boeing
Bristol-Myers Squibb
Capgemini
Ciena
Citigroup
Continental Grain
Corning
Covisint
EFJ
Genzyme
Greenwood Publishing Group
IBM
Johnson & Johnson
JP Morgan Chase
Kauffman Foundation
KeySpan
Kodak
Lenovo
LexisNexis
Loehmann's
Lucent
Marsh & McLennan
Menasha
Mykrolis
Pfizer
Reed Elsevier
SAIC
Stanley
The New York Times
TheStreet.com
Timex
UNIFI
United Technologies
Universal Studios
Varian Semiconductor
Verizon
Wharton
Xerox
Yankelovich

THE LEAD DIRECTOR . . . A CONTROVERSIAL AND EVOLVING CORPORATE ASSET

Board Effectiveness Partners (BEP) has identified 50 significant board leadership responsibilities. If the board chairman is the CEO, or some other company executive, we believe that at least 16 of these leadership responsibilities merit discussion for assignment to a lead director.

Greater attention is being focused on board leadership effectiveness, as directors' concerns increase regarding the risk that their reputations and net worth may be damaged, sometimes irreparably.

To address these director concerns, liabilities, and exposures, boards have significantly increased their independence and the intensity of their engagement in oversight and strategy. The days of boards serving as a rubber stamp for management are disappearing.

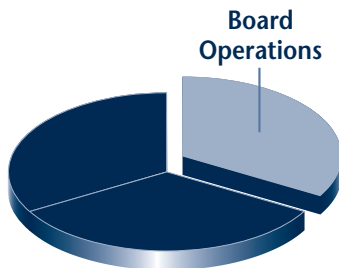
This new vision of director and board responsibilities has generated confusion, dialogue, and debate, often heated, on the role of a lead director in relation to the CEO and chairman of the board.

Based on BEP's ongoing research and consulting, the decision to establish, or strengthen, a lead director role is driven by any number of factors, including:

- size and complexity of the company and its strategic challenges;
- size and complexity of the board of directors;
- life stage of the company;
- strategy involving mergers, acquisitions, marketplace dynamics, global growth, or survival;
- risk profile, including regulatory or accounting history;
- skill mix and experience level of the CEO, board leader, directors, and director candidates interested in and available for board leadership;
- chairman's history with the board, or corporate governance issues;
- litigation; and
- regulatory requirements.

In other words, defining the evolving role of the lead director will be based on each company's unique circumstances . . . at a given point in time. Responsibilities may range from simply facilitating executive sessions of the directors to roles traditionally considered the purview of the board chairman.

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Lead director compensation is determined by the nature of the responsibilities assigned.

From BEP's perspective, the lead director could be compensated as much as 150% of the next highest paid director.



Potential Lead Director Responsibilities

BEP believes the following leadership roles are essential for board and director effectiveness. In some instances, the chairman/CEO is completely capable and comfortable performing the tasks that we have listed. But, in our experience, there have been a number of instances where that has not been the case.

Particularly challenging tasks include counseling directors about their unacceptable performance, or requesting that they resign or retire; or counseling the chairman/CEO in situations involving his or her inappropriate behavior.

The responsibility for counseling the chairman/CEO and directors about inappropriate performance or behavior must fall to someone. We suggest it be the lead director.

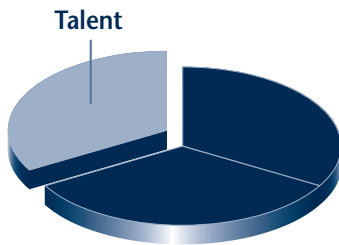
Board Operations

- Collaborate with the chairman/CEO and committee chairmen to be certain board and committee agendas are sound and complete, and that the agendas:
 - effectively balance the need for directors to focus most of their time and energy on the future,
 - encourage and enable management's prudent risk-taking, and
 - dedicate appropriate time to fiduciary accountability and overseeing management's compliance with relevant regulations, laws, and company standards and values.
- Call, develop the agenda for, and chair executive sessions of directors, to be followed immediately by an action-focused review with the chairman/CEO.
- Be available to stand in, on an emergency basis, if the chairman/CEO dies, is incapacitated, resigns, or is terminated unexpectedly.
- Partner with the chairman/CEO to be certain the directors and management function as a team in the best interest of all stakeholders.
- Partner with the chairman/CEO in times of crisis to ensure that the board's and management's actions are coordinated and energized, and that management has the maximum support from the board and every director.

Communications

- Communicate regularly, one-on-one, with each director, to be certain that every director's views, competence, and priorities are understood and respected.
- Facilitate communication, particularly on sensitive matters, between directors and the chairman/CEO.
- Ensure the directors understand the chairman/CEO's perspectives, priorities, and what he or she needs from the directors, committees, and the board at large.
- Act as a point of contact to the board for investors and equity holders, strategic partners, customers, employees, the public, and others when they believe it is inappropriate to contact the chairman/CEO directly.

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BEP has been assisting clients in assessing roles, responsibilities, and accountabilities for board leadership. In our research and consulting, we know of no single, all-purpose leadership model.

BEP believes that each board must define the roles, responsibilities, and accountabilities for board leadership based on its own unique circumstances, over time.

Potential Lead Director Responsibilities (continued)

Talent

- Chair the governance and nominating committee, with clear accountability for recruiting, developing, and mentoring directors, and ensuring sustainable director and board effectiveness.
- Lead a process, involving all directors, to evaluate and mentor the chairman/CEO, to help improve his or her effectiveness and help ensure his or her sustainable success.
- Ensure there are pragmatic action plans focused on chairman/CEO succession.
- Lead board activity to recruit or terminate the chairman/CEO.
- Lead a process, involving all directors, to conduct an annual self-assessment, or independent professional assessment, of director, committee, and board effectiveness. This should then be linked to time-based Director Development Plans designed to continually improve director, committee, and board effectiveness.
- Lead a process, involving all directors, to maintain and review Director Development Plans for each director, including performance assessments, interests regarding board and committee roles, director development progress, and director succession plans.
- Address the complex challenges that develop when it becomes clear that a director should resign from a committee, or resign or retire from the board at large.

Summary

Optimizing and balancing board leadership roles, to ensure the effectiveness of boards, directors, and CEOs, is a work in process that will challenge all of us interested in, and accountable for, the success of enterprises we lead.

BEP continues to consider, explore, and experiment with new ideas for strengthening boards, individual directors, and those accountable for leading enterprises.

We look forward to sharing our lessons learned in more detail and welcome your suggestions, thoughts, agreement, or disagreement. Please contact Sharon Carrigan, *Insights* Editor and Vice President, Communications, at 203.801.5002 or sec@bepartners.com.

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FOCUS

BEP reviews board structure, membership, processes, and procedures, and recommends changes to enhance effectiveness. BEP also evaluates CEO succession plans and candidates, and analyzes company performance against strategic goals.

INSIGHTS

We publish *Board Effectiveness Insights* periodically to encourage dialogue on strengthening director and board effectiveness.

Our readers are encouraged to pass this *Insights* chapter along to others, or contact us for additional copies in printed or electronic format.

We welcome your suggestions, thoughts, agreement, or disagreement. Please visit www.bepartners.com for other chapters of *Board Effectiveness Insights*, and the sites for our sister firms: www.implementstrategy.com and www.ciogroup.net.

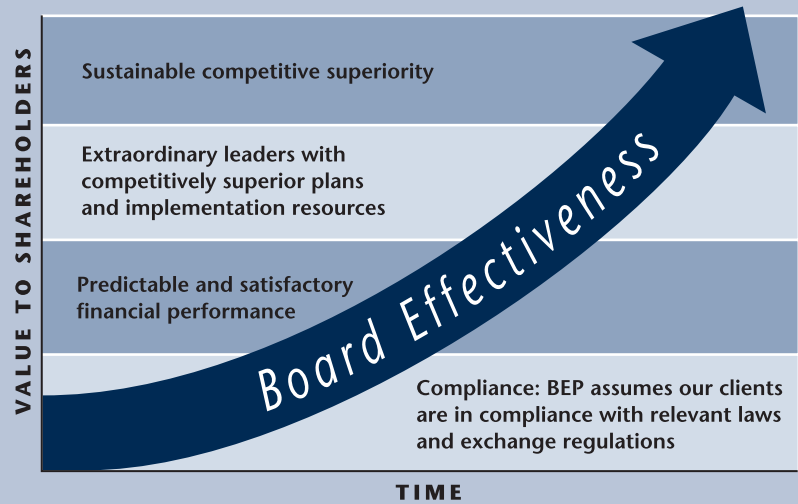
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Our Firm

Board Effectiveness Partners (BEP) collaborates with directors and CEOs to objectively analyze and improve the effectiveness of directors and their boards.



Managing Partners

Each of BEP’s managing partners has 20 years of experience as a CEO, a board or corporate leader, or a consultant. With career credentials that range from manufacturing to financial services, and skills ranging from strategy design to change implementation, BEP’s managing partners provide the breadth and depth of professional experience essential to strengthening director and board effectiveness.

KEVIN ENGLISH has devoted his career to leading business units, companies, and boards, and has improved corporate performance as a CEO and board chairman.

JOHN MCCREIGHT has dedicated over 37 years to consulting and partnering with CEOs, senior leaders, and directors, and to defining and implementing large-scale strategic change.

MARK SCHNEIDERMAN is a senior-level human resources professional who has held corporate leadership roles and has partnered with senior leadership and boards as a consultant, to facilitate strategy implementation and change management.

Alliance Partners

BEP nurtures relationships with over 100 alliance partners worldwide. They exemplify preeminence in their fields and complement our core competencies. Our alliance partners strengthen our capacity to improve director and board effectiveness.

As an example, BEP’s understanding of developments in Europe and the United Kingdom and our ability to partner with clients worldwide are enhanced by our relationship with London-based colleagues Patrick Haighton, Andrew Leung, and Leslie Dighton, the founder of the Chairman’s Club and CRA, a global consultancy.

Research & Operations Center

Our Research & Operations Center (ROC) professionals are linked globally to our clients, alliance partners, industry experts, and the academic community. We focus daily on monitoring director and board effectiveness facts, opinions, successes, disappointments, lessons learned, and emerging best practices.