WELCOME TO BDO AC’SENSE 2013
BOARD MATTERS

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**PRESENTER**

**EXPERIENCE**

Tom Ziemba, Ph.D., is a Senior Director in BDO’s Executive Compensation practice in Chicago. He has more than 20 years of consulting and corporate experience in a number of industry segments. He assists clients in building governance capabilities, strategic positioning, leadership team development, and designing executive and Board compensation programs. Dr. Ziemba has advised CEOs, Boards and executive teams on strategies to build organizational capabilities.

Prior to joining BDO, Dr. Ziemba held practice leader positions in national consulting firms including: McGladrey, the Mercer Consulting Group, and the Compensation and Performance Management Practice at KPMG. He also held executive positions at Harris Bank in Chicago and Campbell Soup Company.

Dr. Ziemba has advised clients representing a variety of industry groups including banks, credit unions, manufacturing and distribution companies, transportation organizations, professional service firms, healthcare providers, member associations, nonprofits, private equity groups, and technology companies.

**PROFESSIONAL AFFILIATIONS**

- National Association of Corporate Directors
- Society of Industrial/Organizational Psychologists

**EDUCATION**

- Ph.D., Organizational Psychology, Illinois Institute of Technology
- M.S.I.R., Loyola University
- B.S., Loyola University

**LEARNING OBJECTIVES**

At the conclusion of this program, participants will be able to:

- Discuss the succession planning framework project phases
- Identify roles and responsibilities of all those involved in succession planning
- Describe and apply different succession strategies based on business models and organizational levels
- Manage succession planning strategy project goals for individual organizations
OVERVIEW

This presentation will focus on the development and implementation of a succession strategy for the organization.

Topics addressed include:
• Trends and recent issues
• Succession project goals
• Project phases
• Board and CEO as project sponsors
• Building the CEO success profile
• Internal candidate assessments
• Development planning

SUCCESSION LANDSCAPE

• Leadership succession is a Board and leadership role growing in importance
  • Top concerns among boards in 2013 are: executive compensation, cyber security, regulations, leadership and succession, M&A, shareholder communications**

• More emphasis on objective and independent review of potential candidates
  • Numerous studies point to the benefit of formal objective assessments in predicting future performance and leadership results

• Support for strong succession planning programs
  • Only twenty-two percent of new CEO’s came from outside their companies*
  • Companies that selected insiders (2009-2011) had a 4.4% higher shareholder return*
  • Insider appointments averaged 7.6 years tenure, 5.6 years tenure for outside appointments*

Source: (*) CEO Succession Study, Booz Allen (2012)
(**) Corporate Director (2013)
SUCCESSION STRATEGY PROJECT GOALS

1. Define the role of the project sponsors (Board and the CEO) in preparing the succession plan

2. Develop a leadership profile that describes the current and future leadership competency requirements for the CEO role and executive team roles

3. Assess the potential and readiness of each internal candidate to assume the CEO role or leadership role

4. Prepare individual leadership development plans and a team development strategy

5. Develop a succession plan for the CEO and key managers that will define their development requirements and timing of movement to new or expanded roles

6. Utilize leadership profile and assessment framework to assess external candidates if needed

FEATURES OF AN EFFECTIVE SUCCESSION STRATEGY

Assessment Based
The succession and development plan is based on a critical review of current capabilities in the context of current and future role requirements.

Integrated Approach
Topics addressed in the succession plan encompass future business requirements, potential market expansion, operational issues, as well as development opportunities.

Positive Orientation
The assessment and development process is viewed as a skill development, not remedial process. As such, it builds on the strengths of the individual.

Focused Talent Planning
Immediate opportunities to build leadership skills are addressed in the context of a long-range plan.

Collaborative
The overall approach is prepared in a collaborative manner with the project sponsors and is customized to the needs of all stakeholders.

Strategic Alignment
The resulting succession plan and development objectives are grounded in the future direction of the company. As important, the leadership plan is aligned with the governance, strategic, and operational needs of the company.
SUCCESSION FRAMEWORK

Project Phases

Define Business Challenges
Develop CEO Success Profile
Assess Candidates
Succession Strategy Development Plan
Program Administration

PROJECT SPONSORS

The project sponsors oversee the executive review and leadership development initiatives. Often, both the Board and the CEO collaborate as sponsors of the development and implementation of the succession strategy.

Specific roles for the sponsors include:

• Transform the business model and strategy into leadership requirements
• Define desired leadership characteristics
• Provide insights relative to internal candidate performance
• Review assessment results
• Identify participants for targeted development
• Monitor and benchmark the development process
• Participate in the feedback process
BOARD PERSPECTIVE

- **Board Sponsor**
  - Compensation Committee
  - Special ad hoc committee

- **Timeline**
  - Contingency planning
  - Three to five years
  - Long-term talent plan

- **Target Roles**
  - CEO
  - Executive team
  - Mission critical roles

- **Strategic Issues**
  - Use of advisors (I/O Psychologist, Recruiters)
  - Compensation plan integration
  - Readiness for business model changes

Best practices include:
- Benchmarking external talent
- Governance principles articulate succession philosophy
- Board oversight reaches below the CEO
- CEO emergency plan

CEO PERSPECTIVE

- **Board and Talent Interface**
  - Support for identification of CEO
  - Owner of long-term talent plan
  - Introduce talent to Board

- **Timeline**
  - Long-term ongoing talent development
  - Replacement planning
  - Executive team engagement

- **Target Roles**
  - CEO role
  - Executive team and management
  - High potentials and other tiers

- **Strategic Issues**
  - Build program structure
  - Competency development versus acquisition
  - Align with business model alternatives

Best practices include:
- CEO serves as strong mentor
- HR function with strategic development capabilities
- Utilization of ongoing external talent assessments
- Objective benchmarks assessing talent development progress
DEFINE BUSINESS CHALLENGES

**Strategic Positioning** - An overall direction for the company that aligns with the mission and provides direction for use of financial resources, human capital and other assets, and describes how to prosper in the marketplace.

**Strategic Goals** - A description of goals for a three- to five-year time frame, which reflect core dimensions of corporate performance. Essentially we use the “Balanced Scorecard” model to organize the high-level strategies relative to four dimensions: customers and products/services, infrastructure requirements, human capital, and financial projections.

**Operating Philosophy** - The leaders of the company have instilled a culture and operating philosophy over the years through their approach to people and operational management. The desired culture, operating philosophy, and culture reconfirmed and used to establish the management style expected of the future leadership team.

*A radical change in the business model (e.g., impact of technology, M&A, spin-offs) can make the current succession plan somewhat suspect given the need for new leadership capabilities.*

DEVELOP CEO SUCCESS PROFILE

- **Culture Building**
- **Business Challenges**
- **Team Management**

Competencies

- Managerial
- Leadership
- Technical skills and knowledge
CURRENT AND FUTURE COMPETENCY REQUIREMENTS

SUCCESS PROFILE - CEO COMPETENCIES
ASSESSMENT APPROACH - INTERNAL TALENT

<table>
<thead>
<tr>
<th>Personal trait inventories</th>
<th>Review of leadership style relative to the traits found to be associated with effective performance at the top management level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Situational review</td>
<td>Analysis of business issues likely to be faced by top management in the near future to assess decision-making style</td>
</tr>
<tr>
<td>Structured interview</td>
<td>Questions that focus on the behaviors demonstrated to address business, management, and human resource management issues</td>
</tr>
<tr>
<td>Accomplishment record</td>
<td>Review of capabilities developed through prior work experiences</td>
</tr>
<tr>
<td>Self-assessment</td>
<td>Identification of well-developed capabilities and development opportunities</td>
</tr>
<tr>
<td>Staff, peer, and manager observations</td>
<td>Confidential input from four or five key staff relative to manager’s performance on competencies defined in the success profile</td>
</tr>
</tbody>
</table>

INDIVIDUAL CAPABILITY PROFILE

**Experience**
- Professional Achievements and Prior Assignments
- Career Interests
- Academic/Development Experiences

**Leadership Style**
- Managing Self
- Managing the Business
- Managing Others

**Performance**
- Performance Management Results
- Recent Accomplishments

**Biographical**
- Hire date, etc.
- Education

**Future Business Models**
- Adaptable
- Learning Agility

**Potential**
- Competencies
- Specific Experience

**Movement**
- Readiness for CEO Role or other Leadership Roles

**Strengths and Development Needs**
- Competency Related
- Performance/Experience Based

**Development Plans**
- Assignments and Roles
- Education
NOMINATION PROCESS
Candidate development is based on a combination of future potential and demonstrated performance

<table>
<thead>
<tr>
<th>Performance (current role)</th>
<th>Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Exceed Expectations</td>
<td>Maximum performance</td>
</tr>
<tr>
<td>At Expectations</td>
<td>Focus on current role</td>
</tr>
<tr>
<td>Below Expectations</td>
<td>Performance issue</td>
</tr>
</tbody>
</table>

EFFECTIVE WORKFORCE/SUCCESSION PLANS
Characteristics of organizations that have an effective workforce plan:
• Communicate people strategy to stakeholders
• Enable assessment of talent while building leadership capabilities and managing pipeline succession in an integrated framework
• Executive team delivers and utilizes enablers that optimize talent investment
• Development and promotion from within become cultural features

Source: Mercer Talent Barometer Survey (2012)
## EXECUTIVE TEAM DEVELOPMENT PLAN

<table>
<thead>
<tr>
<th>Competency Category</th>
<th>Executive</th>
<th>Technical</th>
<th>Managerial</th>
<th>Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>• Managing a larger, more diverse organization</td>
<td>• Talent development and management development strategies</td>
<td>• Opportunities to develop and implement strategic initiatives through team-building and consensus-building</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>• Managing another operating unit • Corporate assignments</td>
<td>• Exposure to resource management concepts (e.g., conducting ROI analyses) • Further understanding of broad financial management tools (e.g., economic value analysis)</td>
<td>• Strategic planning • Communication of corporate vision • Former training in development leadership talent</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>• Line management experience</td>
<td>• Management of line executives • Developing additional industry-specific knowledge</td>
<td>• Individualized coaching to develop a “charismatic” leadership style</td>
</tr>
<tr>
<td></td>
<td>D</td>
<td>• Manage a larger profit center • Developing additional industry-specific knowledge</td>
<td>• Managing a profit center • Completing an MBA degree</td>
<td>• Additional experience in managing line executives</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>• Broader management capacity requiring governance as well as corporate functions</td>
<td>• Development and implementation of talent management strategies for managers</td>
<td>• Formal training in strategic planning for a diverse organization • Formal training in developing leadership talent</td>
</tr>
</tbody>
</table>

## LEADERSHIP DEVELOPMENT APPROACH

- Multisource assessment and feedback
- Developments plans
- Action learning groups 2-3 days
- Increase skills and improve business performance
- Peer coaching
- Insight, support, and reinforcement
- Large group leadership meetings
- Alignment and shared learning
- Special assignments and job rotation
- Accelerate on the job learning

• Enhance leadership capabilities
• Improved business performance
• Aligned leadership
CANDIDATE PRESENTATION

Name: George
Title: CEO
Years in Role: 20 years
Movement: 2 yrs?

Name: Employee One
Title: EVP & COO
Years in Role: 2 yrs
Experience/Ed.: 6 yrs at The ABC Company, 15 yrs prior exp. BA & MBA
Competencies: Leadership, Communications, Organization and PW skills, Highly Respected
Readiness: 2 yrs
Development: Job swap for operations and exposure to directors.

Name: Employee Two
Title: CFO
Years in Role: almost 5 yrs
Experience/Ed.: Total 28 yrs, at The ABC Company. CPA
Competencies: Team wrtgt., customer orientation, operations savvy, high energy
Readiness: 2 yrs
Development: Focused decision making, communicate action plans, ops, experience. Attend executive level Community Bank Seminars

Name: Employee Three
Title: EVP Operations
Years in Role: 9 years
Experience/Ed.: Total 18 yrs at The ABC Company. BS Finance.
Competencies: Hard worker, loyal, strong ops.
Readiness: 2-3 yrs
Development: Leadership and job swap for administration.

Name: Employee Four
Title: VP Customer Services
Years in Role: 1 yr.
Experience/Ed.: 3 years at The ABC Company. 8 yrs prior exp. BA English
Competencies: Customer orientation, communication, training wrtgt., problem analysis.
Readiness: +5 yrs
Development: Leadership skills

Name: Employee Five
Title: General Counsel/Director, Human Resources
Years in Role: 4 Years
Experience/Ed.: Total of 17 years at The ABC Company. BS Marketing, JD, Kellogg Mgmt. Institute - present
Competencies: Regulatory awareness, policy development, effective communicator
Readiness: +5 yrs
Development: Marketing, Board Relations, leadership skills and broader management scope.

Succession Framework - Best Practices

Project Phases

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</thead>
<tbody>
<tr>
<td>Long-term Strategies</td>
<td>Board and Executive Input</td>
<td>Objective Tools and Independent Assessments</td>
<td>Development Plans</td>
<td>Annual Review and Benchmarking</td>
</tr>
</tbody>
</table>
RESOURCES

BDO Board Reflections at:

Ac’sense℠ Programs and Website at: http://www.bdo.com/acsense/
- NOTE: Link to a self-study course of today’s program will be available shortly at:
http://www.bdo.com/acsense/events/BoardMattersQ22013.aspx

Practice Aids available at:
- Succession Planning – Sample Assessment Results and Development Report
- Director Discussion Guide
- Assessment Instruments

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1. Individuals -
   1. Under the Participation tab below before exiting the webcast, OR
   2. By logging onto the http://university.learnlive.com/BDOonline after the session is completed and clicking on My Learning - Completed Items. Under the Certificate column, click the Print button beside the completed webcast.

2. Group participants - After receipt and processing of submitted group sign-in sheets to cpe@bdo.com, group participants will be proctored into LearnLive and will be notified via e-mail when they can retrieve their certificates, following the steps above.

3. Sign-in sheets may be downloaded from the following:
http://university.learnlive.com/content/public/1029/accessinstructions/CPE%20Attendance%20Sheet.doc
EVALUATION

We continually try and improve upon our programming and appreciate constructive feedback.

Following the program, we will be sending out a thank you e-mail that contains a link to a brief evaluation.

Thank you in advance for your consideration!

That concludes today’s program.

Thank you for attending!