

Leadership Library: Looking Up Due Diligence

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During the past several decades, few significant changes to the approach used in selecting new leaders to head up corporations and nonprofits have been made. The most significant innovation has been onboarding. While this activity has undoubtedly helped many new executives cope with the myriad of challenges they face when starting in a new position, it is nevertheless still true that 40 percent of CEOs fail after just eighteen months on the job. So it would appear there is still more that needs to be done if the selection process is to become successful at what it is intended to do—identify, recruit, and hire leaders who can meet the needs of the organizations they are selected to lead.

At Crenshaw Associates, we have developed several techniques that enhance the transition process and reduce the risks of leadership failure. These are based on significant experience coaching new executives, which has shown that, while there appears to be little to add to onboarding methodologies—they all are fairly straightforward, practical, and pragmatic—there are, however, other ways to support a newly hired leader that will help them to become more effective more rapidly.

What most new leaders and their advisers lack is fingertip availability to the necessary facts, hard data, and professional insights of the critical issues, people, structures, and cultures at hand. Without ready access to such information, onboarding too often becomes a matter of "the blind leading the blind." During his or her first year, the new leader, always is on stage. Unfortunately, these new stars often are expected to perform with no costumes, rehearsals, props, or scripts. They are asked to deliver in a flawless manner before an audience whose attitudes may range from indifferent to highly skeptical, and in front of some of the toughest critics they ever encountered. Without hard facts and data, even the best onboarding adviser's contributions are far from maximized.

This is where the need for a Due Diligence Library comes in. The Due Diligence Library is a purposeful collection, review, and organization of relevant management and planning documents. It is material the new leader needs to either be familiar with or aware of, and it becomes the new leader's "field guide of vital information" about where the organization formally stands on all key issues. Assembled and maintained in a thoughtful way, it can play a critical role in facilitating the new leader's success. Further, if assembled before the new leader is selected, it can serve as a valuable due diligence tool for the candidate to use to help answer many of those thorny but unasked questions that are important in obtaining a good fit.

The specific information needed by a functional head, or a country leader, or a division president, or a CEO, or a chairman, will all be different. Generally, however, there are nine basic areas that a Due Diligence Library should be organized around:

1. Board and Shareholder Information
2. Enterprise—Wide Information
3. Human Resources Information
4. Financial Information
5. Operations Information
6. Marketing & Sales Information
7. Product Information
8. Manufacturing and Sourcing Information
9. Legal, Risk, and IT Information

The creation of a Due Diligence Library begins with a message the head of the selection team forwards to the new leader's direct reports and to selected peers of the new leader, requesting them to submit copies of all relevant documents, reports, policies, and the like, that are deemed important for the new leader to read and know about. A delivery date is established in the message. Specific examples of what should (and should not) be provided are included in this "call for input." Everything that is submitted must then be reviewed, and unnecessary items culled out and returned to the senders. Everything that is kept is reviewed and organized—a process that can take several weeks to complete.

It is recommended the materials be stored in several tabbed binders (usually between four and seven 3-inch binders), with an annotated table of contents, as well as specific tables of content for each binder. If time and resources permit, they also may be scanned and stored in digital folders, but on a secure server, or course.

The annotated table of contents should include:

- A description of each document.
- The name of the person and department who has responsibility for it.
- The distribution list of those who receive copies.
- The frequency and date of publication of the document.
- The degree of confidentiality of the document.

It almost is never too early to start the process of assembling the Due Diligence Library. Although presented here in the context of onboarding, it can be even more helpful to the new leader to have a chance to start studying it during the "fuzzy front end"—i.e., as soon as he or she has accepted the position but before his or her official start date. There are many reasons it is helpful for the Due Diligence Library to be created before the new leader is in place (besides the obvious one—so he or she can have it available as soon as he or she needs it, even before day one):

Better Information Is Gathered. When the head of HR—or the director leading the selection team in the case of a new CEO search—puts out a call for contents, the likelihood of full cooperation is quite high. Surprisingly the response to the same kind of request is not always as enthusiastically supported when made by the new leader. This is possibly because "information is power," and until trust is built, some team members may withhold key pieces of information for use at a time that might be more advantageous to them. With no one other than the new CEO to "police" the request, it is easier for

something to "drop through the cracks" than when the process is being managed by a more impartial individual.

- **Follow-Up Is Key.** Sometimes requests for Due Diligence materials simply get lost in the course of normal business. Advance planning allows for follow up on the call for information to ensure things have not been withheld, forgotten, or overlooked. Gathering the right information takes time and is rarely a straightforward procedure.

- **Cull Out the Excess.** Often the call for contents will generate an overwhelming load of material. Some participants may see this as a chance to acquaint their future new boss with their view of the world, including documentation of old political battles won or lost, examples of recent affronts to their "good judgment," samples of the outstanding work done by them and their people on pet projects, and so forth. In the end, keeping the focus on what is essential to the new leader, and not what may be of greatest importance to each and every one of the leader's direct reports, is what matters most.

- **Create Key Documents That Do Not Exist.** Sometimes things needed by the new leader simply do not exist at the company and must be created, which is something the selection team is in a position to do. Generally, the two most helpful items companies do not always have readily available are the corporate calendar and a business process summary or checklist.

- *Corporate Calendar.* The Corporate Calendar is a cross-functional, integrated date book of events brought into one place where the upcoming "givens" that drive the business are clearly identified. These "givens" include monthly and quarterly financial closings, industry events and trade shows, sales meetings, board meetings, recognition and retirement events, analyst meetings, secular and corporate holidays (regional and global), planning conferences (such as strategic planning, operational planning, succession planning reviews, and due dates), staff meetings, and even the scheduled vacations of the new leader's direct reports. Without this information, the coordination of even the simplest meetings the new leader may want to hold can become an endeavor of galactic proportions—one that is time-consuming and could inadvertently cast the new leader in a bad light with various constituencies without even knowing it (by, for example, scheduling an off-site meeting in Toronto on the second Monday in October, which is when Canadians celebrate Thanksgiving).

- *Business Process Summary (or Business Process Checklist).* Another extremely helpful tool, especially for leaders who come from outside of the organization, is a descriptive summary of key business processes at the company. Having pulled together the Field Guide of Vital Information, and having reviewed all of the Business Terrain and Mapping data, the FAC Project Leader is in a good position to create such a summary. The summary should indicate the name of the process, its "owner," how long it has been in place, when (how frequently) it is employed, produced, or updated, the degree of rigor surrounding it, and the like. Crenshaw expert Bob Aquilina, who developed this idea, recommends the checklist include processes such as capital planning, budgeting, strategic planning, business reviews, operating dashboards, sales inventory-production planning, merit reviews, and succession planning.

When we serve as an onboarding consultant, the approach we recommend is that boards put in place an outside transition advisory team (which usually includes the onboarding adviser). One of the tasks this team should be charged with is helping the new leaders analyze the Due Diligence data. We also advise that they analyze the organization's culture. Once these analyses are complete, the new leader is encouraged to share as much of the information they have with as many of their direct reports as

possible in the following context:

Here is the picture of our company that the reports my advisers provided have painted for me based on the data you provided. Do they have it right? What's missing? This being the case, what do you think we should now do about it?

This approach not only demystifies the new leader's perceived agenda, but it does so in a non-confrontational and highly consultative manner. At this stage, if any direct report wants to argue with the leader's findings, they can voice their concerns without having to challenge their new boss directly. It is an outsider's interpretation of the data that is in dispute, not the boss's opinion.

After it's created, efforts should be made to keep the Due Diligence Library current and up to date so it also can then serve as an orientation tool for other newly hired senior executives and outside directors.

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