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By Mark Van Clieaf

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Are boards and CEOs accountable for the right *level* of work?

The court of public opinion says that CEOs are overpaid. This author does not have an argument with that per se, but he does argue, compellingly, that CEOs are overpaid not necessarily because their company under-performs, but because they are being paid for work that is, literally, beneath them. Too many CEOs, he points out are paid for operational, not strategic work. In this important article, he lays out a sound blueprint for identifying the work that CEOs should be doing do and be paid for.

By Mark Van Clieaf

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> *"A CEO of a public company must recognize the difference between corporate assets that belong to the shareholders and their own, personal assets…. The day a CEO crosses this line and mixes the two up is the day they are in trouble."* Vincent Sarni, former Chairman & CEO of PPG Industries.

The truth today is that more than a few CEOs and executives have crossed the line that Vincent Sarni referred to above. In the past few years, too many CEOs seem to have been effectively saying, "What's mine is mine, and what's yours (belonging to shareholders) is also mine." Their behavior has revealed-if not created- that there is a systemic problem in the capitalist system: Many CEOs, boards, and pension and mutual fund managers are not, in fact, accountable. More troubling still is that this lack of accountability is preventing investor confidence from being restored.

The good news is that the bankruptcies, frauds, and cases of excessive executive compensation have served as a wake-up call to remedy the breakdown in accountability. The bad news is that this wake-up call has created a culture of compliance and a checklist approach to improving corporate governance-one that fails to address the critical problems and gaps in the way accountability and decision authority are designed and truly function. Accountability is the lynchpin of corporate governance-and in recent years that lynchpin has become dislodged, exposing fault lines.

Consider the following as further evidence of this breakdown

- Of the 500 companies that made up the S&P 500 in 1957, only 74 remained on the list through 1997. Only 12 outperformed the S&P 500 index in Total Shareholder Return over the same period (McKinsey & Co.). Based on this track record, the longer-term sustainability of many corporations is in question.
- Ninety-five percent of the S&P 500 companies have failed to disclose the non-financial criteria they use to measure corporate and social responsibility (MVC).
- Over a five-year period, 45-50 percent of the largest public companies in North America (1800 companies) have failed to provide an after-tax return on invested capital greater than their cost of capital. Their business strategies/models are therefore not viable. Moreover, the boards and CEOs of these

Given that accountants and compensation consultants who support the board compensation committee both have deficient measurement models, it is fair to say that executive pay for performance is broken at the core

poorly performing companies are apparently not using the right metrics to assess enterprise/CEO performance, or the link between performance and executive compensation (MVC).
- Over a ten-year period, 61 percent of mergers and acquisitions failed to create shareholder value (McKinsey & Co.).
- A review of compensation policies in proxy statements indicates that 89 percent of the S&P 500 CEOs and their executive teams are *not* held accountable, or paid, for business (as opposed to stock market) performance beyond 2 years (MVC).

These statistics raise an important question: Are boards, CEOs and their executive teams held accountable and paid for the right kind of work? I raise this question because my research indicates that 50 percent of the CEOs in North American public companies have roles and accountabilities that have limited or no impact on the creation of long-term shareholder value. Moreover, if CEOs and their executive teams are held accountable for, and measured on, operational work -- while being paid for strategic work -- they are, in fact, being overpaid. In this article, I will further define the problem and suggest a way for making CEOs and boards accountable for the right work-work that actually creates long-term shareholder value.

The core problem

The core problem lies in how different levels of accountability are designed, measured, and audited-or not -- in many cases. Popular enterprise-performance measures have proven grossly inadequate. As well, even the accountants can't agree on how to measure profits. Equity capital was never free, even though most companies failed to account for the cost of stock options and the imputed cost of equity capital in determining earnings and executive compensation. To compound the issue, boards and compensation consultants use role titles, size of company, reporting lines, organization and capital structure for benchmarking executive compensation. These factors tell you almost nothing about the true complexity of executive work, current accountability, and what work those executive roles really should be accountable for to create longer-term value.

When developing compensation benchmarks, compensation committees ask "How much?" but not "For what?" Because they lack clear standards for measuring executive work and accountability, boards and compensation consultants are comparing apples and oranges. Knowing "For what" allows them to truly understand the role and level of work complexity and accountability they are comparing, and defend executive compensation decisions to shareholders. Thus, current practices of using external market comparisons to establish equitable internal executive compensation are fundamentally flawed and indefensible, ethically, legally and economically. Surprisingly, many executive compensation consultants I interviewed stated, "We are experts in compensation, **not** measurement." Given that accountants and compensation consultants who support the board compensation committee both have deficient measurement models, it is fair to say that executive pay for performance is broken at the core.

Newly established board governance processes and checklists will not solve these accountability and measurement problems. How, then, can a board address this challenge? Should it take a defensive

posture, hoping the problem will disappear over time, or should it dig in deep to assess and address the root cause? One hallmark of leadership is the ability to turn a crisis into an opportunity, and how each board responds to this crisis will be a measure of its leadership.

Accountability and measurement: clear, meaningful definitions

If a board is to turn this crisis into a golden opportunity for renewal, it must address two related decisions:

- How the board defines the accountability and performance measures of the CEO. Most boards have failed to define CEO accountability clearly and assign it correctly, at the right level of work.
- How the board measures the success of the enterprise. A short-term focus on quarterly earnings and stock price jeopardizes a long-term sustainable shareholder return.

That is the top layer of the problem. When we dig a little deeper we find evidence of the following:

- Not all CEO roles are created equal, though many institutional investors, boards, compensation and executive search consultants treat them as though they are.
- The role of too many CEO roles is defined at an operational level, which is too low a level of work and leadership accountability to create customer or shareholder value ten, seven, or even three years into the future. Performance measures and rewards that focus on annual financial performance compound this issue.
- Because the CEO's work is not clearly defined, many CEOs are overpaid.

A board has the ultimate authority for defining a CEO's level of accountability (as this article will show, there are five levels). In doing so, it must decide:

- CEO effectiveness and performance evaluation
- CEO compensation
- CEO succession.

The failure to clearly define and assign CEO accountability at the appropriate level is one of the main reasons why the short-term mentality - and the crisis in business leadership - exists today.

The failed accountability and authority hierarchy

Ideally, the authority to manage a company's assets is delegated downward. Accountability for the management of those assets moves upward to the CEO, then to the board, then to pension and mutual fund trustee intermediaries, and finally to the pension or investor beneficiaries who provided the capital to fund their retirement living.

Appropriately defined and assigned, accountability and authority are fundamental to the successful operation of every corporation. Many of the breakdowns in the accountability and authority hierarchies are outlined in the recent white paper by Allen Sykes and Bob Monks, "Capitalism without Owners Will Fail," recently published by the Center For the Study of Financial Innovation. These breakdowns include the following:

- The failure of pension and mutual fund trustees to actively participate in proxy voting that, for example, elects board directors and approves other shareholder resolutions.
- The failure of boards to lead the process of independent director nomination, leaving it up to the CEO.
- The failure of boards to lead in the appointment of external auditors and compensation consultants, leaving it instead

to management.

- The failure of boards to define which levels of work the CEO and his/her direct reports should be accountable for.
- The failure of boards to manage the CEO succession planning process, leaving it instead to the CEO to choose his/her successor and the date of the transition.
- The failure of CEOs to differentiate among the unique contributions of the top three management layers and ensure that each adds value.

While these issues get close to the root of the problem, they are still only symptoms of a deeper problem.

All CEO and board roles are not created equal

Not all CEO's roles have the same level of work complexity and accountability. As a result, many role and compensation comparisons are indefensible. For example, the work of the CEO at Johnson and Johnson is exponentially more complex than it is at Eli Lilly. Similarly, with Procter&Gamble compared to Kimberly Clark. Yet a number of the companies and CEO roles Eli Lilly and Kimberly Clark boards chose for compensation benchmarking are far more complex than the roles of their own CEOs.

Given the higher level of work complexity and accountability, the CEO compensation band at Johnson and Johnson and Procter&Gamble should be two to four times higher than that for Eli Lilly and Kimberly Clark. The problem of comparing CEO roles with different levels of work complexity and accountability is further exemplified by comparing the role and compensation of the NYSE's CEO to the CEOs at firms such as JP Morgan Chase or Merrill Lynch.

Most boards and compensation consultants lack a clear framework for comparing a CEO's and other executives' roles and compensation across companies. Many boards have no grounding in designing effective accountability structures. In the absence of an objective framework for designing accountability and measuring work, many CEOs have defined their own role, accountabilities and level of authority. Thus, current compensation practices continue unabated. Designing an accountability structure that is effective and integrating it with executive compensation is the most powerful lever a board has to protect the financial interests of its shareholders.

A board cannot defend its decisions on executive selection, compensation or succession planning to shareholders without having a standard measure for defining and comparing executive work, leadership accountability, and the required level of executive capability. This is a core problem with board governance. It raises the question of what a single framework for board and CEO accountability design and measurement should look like and contain-what principles, processes and tools could a board use to turn this crisis into an opportunity?

Level of Work: A framework for board and CEO accountability

The size, revenue, and headcount of an organization have little to do with determining how to compensate a CEO and to measure his or her contribution to customer and shareholder value. These factors only blur the issues. Nevertheless, they are used because they are easy to measure and follow a tradition-a tradition handed down from a command-and-control view of organization design and compensation in an industrial economy.

Few companies (Johnson and Johnson, 3M) have disclosed their metrics for measuring the CEO's and executive team's contribution to creating customer and shareholder value from the development of new products, services, and

businesses. Only 11 percent of the S&P 500 have disclosed a time period of three years and beyond for measuring business (as opposed to stock market) performance, and have linked this to executive compensation. GE has developed a new, rolling four-year measure of compounded cash flow growth as a key performance measure for its CEO. But even this measure is deficient because there is no link to the value created from new products or new businesses.

CEOs, boards, and institutional investors would benefit from a framework called *Level of Work* to help design executive accountability, assess executive leadership capability, and establish equitable and defensible levels of executive compensation. (Level of Work and related Stratified Systems Theory is an integrated and comprehensive set of principles, processes and rules that links organizational structure to individual ability and talent management. Each level of work provides a unique output that contributes to creating value for customers and shareholders. These work levels also provide the building blocks for assessing and developing general managers. Contributors to the original research, upon which our research was developed, included Elliott Jaques, Wilfred Brown, David Billis, Ralph Rowbottom, Gillian Stamp, Warren Kinston and others.)

Applying Level of Work organization design principles ensures that each level in an organization has differentiated accountability, authority, and processes, and adds unique value for customers and shareholders. The framework uses six factors, four of which are innovation complexity, planning horizon, complexity of assets/capital managed, and the complexity of stakeholder groups to be managed (for example, if the enterprise operates a number of different businesses in various countries.)

Ten years of research and over 400 interviews at the Global CEO, Group President, President, and Vice President/General Manager levels have provided insights into five levels of work complexity and CEO leadership accountability. The five levels cross three major domains of leadership work: the Operational domain, the Business Development domain, and the Global Industry domain (see figure 1, at end of article). These leadership accountability levels and domains have evolved and been further validated over the last forty years through thousands of management interviews carried out based on Level of Work and Stratified Systems Theory. As an example, innovation complexity is a key factor in determining the level of work. It includes process innovation, new product/service innovation, new business model innovation, and industry structure innovation.

These ideas about unique levels of work complexity, leadership accountability, and levels of leadership capability have been further researched and validated with executive management and boards from companies such as Unilever, Standard Bank of South Africa, CRA Mining in Australia, Quaker Oats (now part of Pepsico), and Alcan.

Size of business, budget, reporting lines, and number of employees do not determine the level of complexity of CEO/general management work. This finding is supported by the work of Dr. David Billis, of the London School of Economics. Based on his work and research in developing and implementing a worldwide Level of Work approach in Unilever:

> *"How could a national company with a turnover of $1 billion manage with the same number of management levels as a comparatively small company with, say, a $200 million turnover? How could their Managing Directors be in the same level of work? At first sight the analysis, which led to this conclusion, was greeted with disbelief by the larger company. So the interviewing and*

analysis was done again and again. The result remained the same. Complexity and the value added at each level, not sheer size was the driving force of this new approach in defining work, accountability and equitable compensation."

By defining the level of work and CEO accountability, the board is defining the level of innovation, risk, and breadth of decision authority it is delegating to the CEO.

For example, if the organization is an income trust and focuses on maximizing quarterly dividend payouts, it requires only a **level 1 process innovator CEO** role (see figure 1). There is no expectation of capital investment for innovation that leads to new products, services, and businesses. In this case, the CEO's key accountability is to maximize earnings and cash flow from the existing asset base. The focus is on **operational leadership**, and the decision-making authority granted by the board is for short-term, core business process efficiencies to maximize quarterly EPS and return on invested capital. Given that the CEO's role is in the operational leadership domain, it should be paid commensurate with this level of complexity, innovation and decision-making authority over assets.

Contrast this with a **level 5 global business/ societal innovator CEO** role (e.g. BP, Unilever, Procter and Gamble, Nestle, Alcan) in a global entity operating in three or more industry sectors, with over 30 business unit presidents accountable for investing in new products and new business models in more than 40 countries. The CEO role is accountable for the following:

- The next quarter's earnings per share and return on invested capital from existing operations (operational domain), **and**
- Two- to ten-year growth, profit, and return on risk-adjusted capital from investments in new products and businesses (business development domain), **and**
- Envisioning and making ten-year-plus investment decisions in R&D to create future industries (e.g. hydrogen energy, genomics, food from plant protein to feed the world) and manufacturing plant location decisions that will drive the sustainability of the enterprise for shareholders/ pensioners, **and**
- Contributing Cash-Value-Added to worldwide society today and 10-20 years in the future. (Cash-Value-Added for society was defined by Unilever in their 2002 Corporate and Social responsibility Report. Cash-Value-Added = cash paid to employees + governments + capital providers + suppliers + cash contributions to local communities + investments in the business for future growth.)

A **level 5 global business/societal innovator** CEO role manages the inter-dependencies between economic, environmental, social and political factors worldwide. The role makes a unique contribution to enterprise sustainability, new industries (R&D), and wealth creation for global society. Compensation for a CEO role operating at this level of work complexity and creating long-term value should be 16 to 32 times greater than that of the income trust's CEO. Thus, different levels of CEO work, each adding unique value and requiring a different level of executive capability, provide the defensible basis for different levels of CEO compensation.

How does a board ensure that the CEO accountabilities and compensation are established properly and made defensible to shareholders?
In my Accountability and Level of Work audits I frequently find the following:

- Too many layers of management compressed into the same Level of Work.
- Significant title creep.
- Executive management compensated at a

Level of Work principles provide an empirically proven set of tools and processes to define work, accountability, and decision-making authority, and ensure that each level adds value for customers and shareholders

strategic level but doing operating work (therefore overpaid).
- Disconnects between:
  - financial accountability and reporting systems reviewed by external financial auditors, and
  - managerial accountability, delegation and decision authority systems across the enterprise, which are rarely audited.

These disconnects between financial systems and internal governance of managerial decision and control systems are evident in such companies as Enron, Global Crossing, and Worldcom.

Executives are usually defensive about the findings until they understand the implications for effective organization design, one that creates sustainable shareholder value.

Level of Work principles provide an empirically proven set of tools and processes to define work, accountability, and decision-making authority, and ensure that each level adds value for customers and shareholders. This establishes a defensible basis for determining equitable internal compensation and how much more the CEO role should be paid than direct reports and reporting roles once removed. Current practices (using an industry model, medians, and averages for peer groups to compare compensation when CEO roles operate at significantly different levels of work complexity and true accountability) result in overpayment for the less complex CEO roles and underpayment for the more complex CEO roles.

The board's responsibility

A critical board responsibility is to define the CEO role's level of work and leadership accountability. Yet, this board function is not clearly defined in any of the best practice principles, processes, or check lists for corporate governance put out by the Conference Board, Canadian Coalition on Good Governance, or the International Corporate Governance Network. Recent court decisions in favor of shareholders (Disney in the U.S., Repap in Canada) highlight the importance of having a defensible process for boards to make decisions on executive selection and compensation. The business judgment rule no longer provides a loophole for directors to neglect their duty of care and good faith. They will be held to account and required to demonstrate a defensible decision-making process.

The governance implication of defining the level of work and CEO leadership accountability is that, to truly add value and represent shareholder interests, the board of directors must have a *collective capability* to operate at the same level as, or ideally one level of work higher than, the CEO role's defined level (see figure 2, at end of article). Thus, there are also five levels of board accountability and matching requisite capability. There is a significantly higher risk of a write-down of shareholder equity when:

- Board/CEO levels are not aligned with each other and the external business environment.
- The level of work is defined at too low a level of innovation and too short a time-span for planning and results.

Sydney Finkelstein's recent book, *Why Smart Executives Fail*, provides a number of examples of well-known business failures, many of which can be explained by the misalignment of board/CEO level of work accountability and capability (see figure 2, lower left quadrant). These include:

- New business ventures-Iridium, Webvan, Pets.com.
- Needing new business models-K-Mart, Rubbermaid, Sony Music, Motorola Cellular.
- Mergers and acquisitions-Quaker/Snapple, Sony/Columbia Pictures, Eli Lilly/PCS Health

(For a full description of why smart executives fail, see the article by Sydney Finkelstein in the January/February 2004 *Ivey Business Journal*.)

The size and risk of these business failures and multi-billion-dollar shareholder write-downs could have been significantly reduced or prevented if the boards and key executives in these firms had been held accountable for the right level of work, and operated at the requisite matching level of executive and board capability.

A new model for executive pay-for-performance

Boards and compensation consultants are not the only parties that must develop a new defensible model for defining CEO accountability, executive work and compensation. Institutional investors - the trustees of these pension assets-and proxy advisory firms must do the same.

In their new Pay-for-Performance model, ISS, the proxy advisory firm, uses only one- and three-year Total Shareholder Return (TSR) as the basis for determining which companies to target for possible "withhold vote" for the election of compensation committee board members, and "no vote" for equity-based incentive plans. This metric is too short-term and needs to be balanced by underlying economic fundamentals like ROIC, ROA and ROE.

CalPERS, the largest public pension fund in America, has recently developed and disclosed a model for evaluating Executive Pay for Performance effectiveness. It is based on grouping 1500 of the largest U.S. public companies into 14 global industry classification standard groups and two levels of market capitalization. This group represents some 87 percent of the stock market value of U.S. companies. The CalPERS model highlights the problem in understanding levels of executive work, accountability, value-adding management, and appropriate compensation across corporate America.

We support CalPERS leadership on pay-for-performance, but its model has the potential to penalize and rank businesses falsely. Its pay-for-performance model attempts to compare apples to apples by grouping these 1500 companies to create median financial and compensation scores. In our opinion, however, this is not the case. It really compares executive accountabilities and compensation across five unique levels of work complexity.

Our analysis identified that CalPERS' time-scales and the rankings to define pay for performance are possibly mismatched. The reason is that they link one- to three-year *operational* measurement and financial metrics for current products and services (Operational domain) with the executive compensation that should be paid for the *strategic* work of creating future products, services and new businesses, work that would not become evident in financial results for two to ten years (Business development domain). This reflects much of the current practices in executive compensation today, practices that need to be transformed if shareholders are to compensate management with strategic pay for strategic levels of work and accountability.

CALPERS advises that it does undertake a qualitative review of the data resulting from its quantitative model. This review does take into account issues of "quality control" of earnings including elements impacting corporate and social responsibility that may also impact long-term equity market valuation. In determining excessive

executive compensation CALPERS also advises that it attempts to recognize the complexity of executive roles. In a discussion I had, a CALPERS official said that, "this issue is indirectly addressed in our qualitative review and engagement."

Level of Work can help minimize the ratcheting effect that current compensation benchmarking practices have created. First, within industry sectors, boards and shareholders need to compare executive compensation levels *relative* to the estimated Level of Work at comparative companies to determine defensible compensation. Research suggests that each CEO level is worth two times the level of work directly below it. Example, a **level 3 business model innovator CEO** role is worth two times more in total direct compensation than a **level 2 new product / new service innovator CEO** role.

Second, where industry sample sizes are too small, boards need to include peripheral industry sectors for benchmarking and matching of executive roles and compensation at the estimated SAME Level of Work in these other industries. This shifts compensation benchmarking from an industry-based model to an employment model. This type of comparison also follows the trend in the recruiting of executives across industry sectors. The bottom line, executive accountability and pay-for-performance frameworks need to be sound and defensible to shareholders, employees, courts and the broader societies who provide a license to operate.

Having addressed the problem of measuring and designing executive work, accountability and defensible executive compensation, let us now turn our attention to the second measurement challenge, how the board can measure the success of the enterprise.

Capitalism, democracy and higher levels of leadership accountability

Barry Diller, the CEO of Interactive Corporation, has said that, "The quarterly EPS game has little to do with running a business, and the numbers can become distracting and dangerously detached from the fundamentals."

The boards, CEOs and CFOs of Coca-Cola, Gillette, Nordstrom, McDonald's, Mattel, AT&T, Progressive Insurance, and PepsiCo have stopped providing quarterly EPS guidance. Yet many analysts and the business media continue to focus on *short-term* EPS, stock price, and total shareholder return (TSR) as key measures of business performance and leadership success. This is despite the fact that there can be **no** correlation between the economic fundamentals of a business and its stock price in a one- to five-year time horizon.

The companies who refuse to play the quarterly guessing game can move away from short-term earnings management and financial engineering. They can focus on achieving the right balance among short-term, operational stretch goals, medium-term (two to ten-year) investments in new products and services, and new business models that create sustained value for customers, shareholders and societies. Importantly, these companies are changing their accountability structure to leverage resources to meet short-, medium- and long-term goals **concurrently**. Successful strategies are not executed in three-month periods; consider Enron, which met EPS targets for 16 consecutive quarters before it hit bankruptcy.

The boards, CEOs and executive teams at companies such as BP, Unilever, Alcan, NovoNordisk, Procter & Gamble are creating enterprise models for sustainability, corporate and social responsibility, and global citizenship that go far beyond the current year's earnings per share and return on invested capital. They have each embraced a ten-year-plus mission, purpose, and strategy to use shareholder capital to create

sustainable value for societies. These and other companies have established triple-bottom-line measure of success (financial/shareholder, environmental, societal/community).

If boards are to carry out their duty of "due care and good faith" to shareholders they must change their practices for executive selection and executive compensation. Executive pay for performance must move from *maximizing* short-term EPS and stock price to *optimizing* the creation of shareholder value and societal Cash-Value-Added in the three-to-20-year-plus planning horizons.

Robert Monks, the shareholder activist and corporate governance authority describes these Levels of CEO work as the " Occam's Razor of executive accountability… providing a clarity of language in defining executive work and the evaluation of management that makes accountability possible."

Level of Work, as an organizational and leadership framework, has far-reaching implications that cannot be addressed here. These include: pension and mutual fund manager performance measurement; the role of the board and institutional investors in large acquisitions; optimal organizational structure for the enterprise and total number of levels required; required board capability and director nomination; optimal CEO tenure; enterprise succession planning; recruitment; competency development; business school curriculum; and management development and required career experiences to create the next generation of business leaders.

To restore investor confidence, boards, CEOs, institutional investors, regulators, and the courts need to apply a defensible and proven framework for measuring levels of work complexity and accountability and linking them to pay for performance. Board directors who apply these proven principles and tools for accountability design and talent management will shift from simply fulfilling their fiduciary role to actively participating in creating long-term shareholder value. Then, and only then, will transparent, defensible board decisions regarding CEO selection, CEO succession planning and executive compensation become reality.

Figure 1

Level of Board / CEO Accountability
(What is the unique contribution ?)

Leadership Domain	Level of Work & Innovation	Range of Required Capability
Global Industry • Current / Future Societies • 10-20 yr + Balance Sheet Strategy, optimizing TSR and Cash-Value-Added for Societies • Transform Industry Structure / Cultures • Create change globally • Leadership of business Leaders	**Level 5) Global Business / Societal Innovator** Creates enterprise sustainability,new industries (R&D), and wealth creation for global society, by managing the inter-dependencies between economic, environmental, social and political factors worldwide	Evolve a business philosophy and ideology, managing the inter-dependencies between capitalism, globalization, sustainable development, and democracy (existing & emerging) for current and future generations
	Level 4) Industry Innovator Model corporate citizenship / stewardship, policy and investment strategies leveraging business models across multiple geo-political, socio-economic, & technological boundaries	Define enterprise purpose, business conduct & principles that transcend business models and cultures; define/ enforce governance, value systems & societal standards; Redefine the rules across multiple economic systems
Business Development • Current/Future Stakeholders • 2 to 10 yr Investment Plans • New Products,New Businesses & Return on Invested Capital • Anticipate change nationally and globally • In-Direct Leadership • Strategy & Management	**Level 3) New Business Model Innovator-** Transform the business model leveraging customer, competitor, regulatory, capital market, NGO's and other socio-economic factors	Transform previously accepted rule systems about the business model to create new business rule principles to sustain competitive advantage for the business system
	Level 2) New Product / Service Innovator Integrate and synthesize stakeholder needs resulting in development of new products, services, markets & channels	Combine principles from multiple business functions / complex processes to to guide action on inter-related sub-systems, recognizing non-linear and non-obvious rule relationships and unintended consequences
Operational • Current Customers • 1 year profit plan / EPS • Operational & executional efficiency • Respond to change locally and nationally • Direct Leadership • Operational Control	**Level 1) Process Innovator** Optimize process, technology and people to deliver a suite of products & services to meet the needs of current customers	Combine a number of elements in creating multiple options, based on a systemic pattern of rules, to design core business processes

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Figure 2

Board / CEO Capability Matrix

	CEO – Operating Below Required Capability Level	**CEO +** Operating at or above Required Capability Level
Board + Operating at or Above the Required Capability Level	**CEO Driven Shareholder Risk**	**Shareholder Value Creation** *("the leadership challenge")*
Board - Operating Below the Required Capability Level	**Shareholder Value Destruction**	**Board Driven Shareholder Risk**

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