

REPORT OF THE
ORGANIZATIONAL TASK FORCE

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INTRODUCTION

In March of 1984, the Board of Directors adopted a corporate strategy for the Exchange. One component of that strategy was the initiation of an all out effort to establish competitive readiness. As part of that effort, the Organizational Task Force was formed with the following specific mission: Evaluate the Exchange organizational structure and decision making process in terms of their appropriateness to the strategy, with particular emphasis on improving communications to all Exchange constituencies.

This report summarizes the findings of the task force and presents a series of recommendations relative to top management. Those recommendations deal with organization structure, roles, communication, and decision making processes.

MAJOR ISSUES

The CBOE faces an unusually tough management challenge. It must deal with a complex product line and complex customer relations. It must deal with many constituencies, with little direct control over them. And it must deal with these in a cultural environment which is, of its nature, short term, transactional, and crisis-oriented.

The organizational demands that a more competitive environment will place on the future CBOE organization structure are shaped by six basic forces:

- o the basic nature of the exchange business
- o regulatory and legislative forces
- o competition and new product forces
- o customers
- o the culture of the trading floor
- o the past history of the organization

The task force reviewed these basic forces and examined the Exchange's organization structure in terms of the allocation of resources, the roles of senior management, the role of the Board and the Executive Committee, the role of the committee system, decision making processes, a more competitive environment, and the recently adopted corporate strategy.

As a result of its review, the task force concluded that the CBOE must put more emphasis on full time professional management, rather than management by committee. Management roles must be clarified and defined. Continuous attention must be given to the management of risk, to education, to communication, and to teamwork. In all, six major issues have been identified.

1. Certain key functions, which are essential to running our business in a competitive climate, need to be developed or enhanced. Specific areas to which greater resources should be allocated are: marketing, marketing research, new product development, product introduction, systems development, strategic planning, education/training, human resources, and communications.

2. Leadership of the floor is very diffuse. Floor leadership must be developed if we are to succeed in a competitive environment.
3. A management structure must be put in place that is appropriate to our strategy. The structure must take into consideration the present structure and people, the Exchange's present and future needs, the key activities requiring development, and the decision processes.
4. The relative authority and accountability of the Board, the Executive Committee, full-time management, and the committee system need to be better defined.
5. Communication among the Board, the Executive Committee, Exchange management, floor constituencies, and member firms needs to be improved. Specific concerns are: overcoming perceptions that are inconsistent with facts; gaining a common understanding of issues; providing a vision of where the Exchange is headed; and developing the ability to rally the floor.
6. Decision-making processes need to be better defined and made more efficient/effective.

PROPOSED CHANGE PROGRAMS

Using the major issues as a starting point, the task force developed an agenda for change consisting of nineteen specific needs. These needs were prioritized and grouped to form nine change programs which were presented to the Board at its June meeting (See Appendix I).

Seven of these programs were delegated to others for implementation or put on hold. The remaining two, dealing with organization structure/roles and leadership style/management processes, have been the focus of the task force. They are addressed below.

FINDINGS

There is general agreement among the task force that the Exchange's organization structure, with respect to top management, is not well-suited to operating in a competitive environment. The following observations are made.

1. The Board is properly balanced and a balance of power among the major constituency groups exists at the Board meetings.
2. The Executive Committee is, in theory, a committee of the Board. In practice, it acts as a management committee and addresses all major issues before they go to the Board.
3. The Executive Committee, in theory, acts as an interim Board, to provide continuity between Board meetings. In practice, it is impossible to get a balanced cross-section of the Board to serve on the Executive Committee. As a result, it is not practical to expect the Executive Committee to function as a true interim Board.

4. Ambiguity has developed regarding the relative positions of the Chairman/CEO and the Chairman of the Executive Committee. This stems, in great part, from the unusual situation of having a Chairman of the board who is not also Chairman of the Executive Committee.
5. The direct management role of the Executive Committee and its Chairman depends on how each Chairman of the Executive Committee defines his role.
6. The primary constituencies are represented rather than led. Leadership of the floor will become increasingly important in a competitive environment.

CONCLUSIONS

It is the task force's conclusion that, during the present period of strategic change, these conditions are a serious threat to the Exchange. The task force further concludes that two organizational design criteria are fundamental to a successful top management organization structure at the CBOE.

- o First, the CBOE needs a single management focal point, with the trust of the two primary constituency groups, and with the acceptance that, at the CBOE, leadership can only be won, not imposed.
- o Second, the organization structure must provide for strong constituency leadership functions focused on each primary constituency group.

RECOMMENDATIONS

With the stated criteria in mind, the task force has developed a proposed organization structure for top management. It has also developed a set of descriptions intended to clarify the roles of the participants in top management. The proposed structure and roles are described in the recommendations outlined below.

Recommendation 1: Create an Office of the Chairman which will serve as the management committee of the Exchange.

- The purpose of the Office of the Chairman is to create a mechanism for bringing together the viewpoints of the various constituencies below the Board level.
- The Office of the Chairman will consist of the Chairman/CEO, the President, and the Chairman of the Executive Committee.
- The Office of the Chairman will meet regularly to advise the Chairman and to resolve management issues affecting multiple constituencies.

- The Office of the Chairman will be responsible for coordinating communications among the Board, the Executive Committee, and Exchange staff.
- The Office of the Chairman will be authorized to approve any operating or capital expenditure not exceeding \$250,000.

Recommendation 2: Assign to the Executive Committee, as its most important task, the role of providing leadership to the trading floor.

- The Executive Committee should have four basic functions: providing leadership to the trading floor; serving as the trading floor's representative in providing input to the Exchange's planning and policy setting activities; overseeing the Exchange's system of floor committees; and serving as an interim Board, between meetings.
- Of these functions, providing leadership to the floor must be primary. The Exchange's capabilities for leading, or rallying, the floor have not been sufficiently developed. Having this capability will be critical in a competitive environment. There is no more important task before the Executive Committee.

Recommendation 3: Make the Chairman of the Executive Committee a functioning member of top management.

- Compensate the Chairman of the Executive Committee for an agreed upon proportion of his time, which he is expected to spend carrying out the duties of his office.
- Provide the Chairman of the Executive Committee with full-time staff assistance.
- Make the Chairman of the Executive Committee eligible for a bonus and have his performance reviewed by the Compensation Committee.

Recommendation 4: Endorse the role descriptions, contained in Appendix 2.

- These descriptions outline the roles of the Chairman/CEO, the Vice Chairman/Chairman of the Executive Committee, and the President in terms of the scope of responsibilities, the functions for which the individual or group will be held accountable, and the authority provided. Also provided are brief descriptions of the roles of the Board and Executive Committee, to provide a context for the individual role descriptions.

Recommendation 5: The Exchange's Committee System should be reviewed, and possibly restructured, to enhance the Exchange's ability to respond to competitive issues.

- A review of the committee system should be led by the Chairman of the Executive Committee. Questions to be answered include the necessity of each existing committee, the need for committees that do not exist today and a clear definition of the role of the committee structure.
- Each committee should have a charter defining its role. This charter should indicate whether the committee plays an advisory role or whether it has decision making authority.
- General criteria should be developed for membership on the various committee.
- A program should be developed to educate committees as to their responsibilities and as to how their committee members fit into the overall management of the Exchange.
- Each year every committee should be provided with guidelines regarding what it is expected to accomplish during that year.

RECOMMENDATION 6: Develop a compensation plan for all members of the Board of Directors.

- Being a director of the CBOE makes significant demands on the individuals' time. Today only public directors are compensated. A plan should be developed to compensate all directors for their efforts.
- Responsibility for developing this plan should be assigned to the Compensation Committee.

APPENDIX 1

CHANGE PROGRAMS

ORGANIZATIONAL TASK FORCE

PROPOSED CHANGE PROGRAMS

<u>CHANGE PROGRAM</u>	<u>ACTION</u>
I. o Clarify the roles of top management and committees. (1) o Restructure committees to be effective in advisory, support and communications functions. (3) o Create a balance between strategic and operational management. (4) o Develop breadth and depth of management. (N/R)	I. To be addressed directly by Organizational Task Force - start by answering list of questions developed by WEA; - Define alternatives - Develop evaluation criteria - Evaluate alternatives - Develop specific plan of implementation - Report to Board
II. o Establish a leadership style and structure that does not have to rely heavily on direct control. (2) o Establish an effective (highly developed) program for communication and constituency management. (2) o Establish decision processes which will lead to quality (3) and perserverance (7) of decisions. o Develop a more sophisticated political capability in terms of the use of power, media management and conflict resolution. (7) o Examine the impact of the petition process on our ability to make decisions in a competitive environment. (N/R)	II. Same as above
III. o Launch a major effort to change the relationships between the Floor and its most valued customer (the member firms) via a successful Competitive Marketplace Task Force. (3)	III. On hold pending results of Competitive Marketplace Task Force. Recommendations expected at July 1984 Board meeting.

CHANGE PROGRAM

ACTION

- IV. o Create a balance between strategic and operational management. (4)
- o Develop a risk management and proactive crisis management capability. (6)
- V. o Develop a program for the education and re-education of all constituencies, including staff. (4)
- VI. o Develop more sophisticated new product development and introduction capabilities. (5)
- o Develop a marketing capability which differentiates customers and addresses their multifaceted needs. (7)
- o Increase geographical span of marketing and product use. (9)
- VII. o Develop a highly skilled Human Resources function. (7)
- VIII. o Launch a major campaign to change customer attitudes and to improve CBOE image. (8)
- IX. o Develop a goal-oriented management philosophy using performance measures and incentive compensation. (8)

- IV. Delegate responsibility to Chairman to develop strategic planning capability and to develop programs for risk management and crisis management.
- V. Delegate to Strategic Planning as a special project. Strategic Planning to identify constituency needs, determine priorities, and develop alternatives. Alternatives to include creation of an Options Institute.
- VI. Product Review Panel has been formed and additional resources are being allocated to Product R&D and Marketing. This program has been turned over to operations.
- VII. Delegate to President.
- VIII. This change program should be kept on hold pending results of Competitive Marketplace Task Force. Marketing should limit itself to maintenance activities in the interim.
- IX. Delegate responsibility for the development of a goal-oriented planning system to Strategic Planning; delegate responsibility for setting objectives, measuring performance, and providing compensation incentives to President.

Note: The numbers in parentheses indicate the priority the task force assigned to the item.

APPENDIX 2

ROLE DESCRIPTIONS

- o Board of Directors
- o Chairman/Chief Executive Officer
- o Executive Committee
- o Vice Chairman/Chairman of Executive Committee
- o President

BOARD OF DIRECTORS

SCOPE OF RESPONSIBILITIES

The Board of Directors is responsible to the members, member firms, regulatory agencies, staff, and general public for setting Exchange policy and for the overall governance and continuity of the Exchange as a self-regulatory organization. The Board of Directors is the governing body of the Exchange and is vested with all powers necessary for the management of the business and affairs of the Exchange and for the promotion of its welfare, objects, and purposes.

ACCOUNTABLE FOR

- A. Selecting the Chief Executive Officer.
- B. Providing advice to the Chief Executive Officer.
- C. Providing direction and setting policy regarding corporate strategy, goals, and objectives.
- D. Maintaining and enforcing the Constitution and Rules.
- E. Making all major decisions regarding resource allocation.
- F. Protecting the assets of the Exchange.
- G. Seeing that the Exchange is well-managed.
- H. Appraising, developing, and compensating top management.
- I. Making certain decisions that are not delegable.

AUTHORITY

- A. The Board may exercise all such powers of the Exchange and do all such lawful acts and things as are not by statute, the Certificate of Incorporation, the Constitution, or the Rules directed or required to be exercised or done by vote of the membership. (Const. 6.2)
- B. The Board may organize subsidiary corporations, impose fees and charges, adopt or amend rules, issue orders and directions, and make decisions as it deems necessary or appropriate. (Const. 6.2)
- C. The Board may regulate the business conduct of the members. (Const. 6.2)
- D. The Board may prescribe and impose penalties for violation of the Constitution and Rules, for neglect or refusal to comply with orders, directions, or decisions of the Board, or for any other offenses against the Exchange. (Const. 6.2)

AUTHORITY RESERVED

The Board's authority flows from the Certificate of Incorporation, Constitution, and Rules. Subject to action by the membership at a special meeting, it reserves to itself all authority not otherwise delegated. Specific authority reserved includes the following:

- A. Its power and authority to set Exchange policy, including the establishment of the Exchange's mission and strategy. (Const. 6.2, Delaware Corp. Law)
- B. Its power and authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the members the sale, lease or exchange of all or substantially all of the Exchange's property and assets, recommending to the members the dissolution of the Exchange or a revocation of a dissolution, or amending the Constitution or Rules of the Exchange. (Const. 7.2)
- C. Its power and authority in reference to the election or removal of officers, the filling of vacancies in the Board or other committees appointed by the Board, or in fixing the compensation of officers and directors. (Const. 6.3, 6.4, 8.1, 8.5, and 8.7)
- D. Its power and authority to acquire, mortgage, or sell real estate; to authorize execution of legal documents; or to amend or rescind prior resolutions of the Board. (Common Practice)
- E. Its power to authorize and approve the annual operating budget and any unbudgeted operating expenditure exceeding \$250,000. (Current policy)
- F. Its power to authorize and approve any capital expenditure exceeding \$250,000. (Current policy)

CHAIRMAN/CHIEF EXECUTIVE OFFICER

SCOPE OF RESPONSIBILITIES

- A. The Chairman shall be the Chief Executive Officer of the Exchange responsible to the Board for the management of its business affairs, and shall be the official representative of the Exchange in all public matters.
- B. The Chairman shall be a member and the presiding officer of the Board of Directors and an ex officio member, without a right to vote, of all committees, without prejudice to his being specifically appointed as a voting member of any committee.
- C. The Chairman shall be a voting member of the Executive Committee and the Compensation Committee.

ACCOUNTABLE FOR

- A. Providing leadership to all members, member firms and staff.
- B. Implementing policies established by the Board of Directors.
- C. Assuring effective communications among all Exchange constituencies.
- D. Overseeing the Exchange's planning functions including strategic planning and new product development.
- E. Developing corporate goals and objectives, consistent with the Exchange's strategic plan. Presenting goals and objectives to the Board of Directors for approval. Monitoring Exchange progress with respect to goals and objectives.
- F. Assuring that the Exchange has sufficient resources to support anticipated requirements as approved by the Board of Directors.
- G. Maintaining liaison with members, member firms, regulatory agencies, the Congress and other governmental bodies.
- H. Overseeing the Exchange's marketing, communications and legal functions.
- I. Overseeing the Exchange's interactions with other self-regulatory organizations and clearing organizations. Overseeing the Exchange's participation in industry organizations.
- J. Overseeing communications between management and the Board of Directors, the Executive Committee, and other Exchange committees.

AUTHORITY

- A. The Chairman is authorized to call special meetings of the members, for any purpose, unless otherwise prescribed by statute or by the Certificate of Incorporation. (Const. 3.4)
- B. The Chairman shall appoint the four public directors of the Board and the non-elected Vice Chairman of the Board, subject to approval by the Board. (Const. 6.1)
- C. The Chairman shall recommend replacement Directors for election by the Board in the event of the retirement or resignation of a Director. (Const. 6.7)
- D. The Chairman may call special meetings of the Board of Directors. (Const. 6.7)
- E. The Chairman shall appoint all officers of the Exchange, subject to the approval of the Board. (Const. 8.1)
- F. The Chairman is authorized to establish and maintain such departments of the Exchange as may be deemed necessary from time to time. (Const. 11.3)
- G. The Chairman is authorized to set policy regarding his areas of responsibility consistent with the policies set out by the Board. (Common Practice)
- H. The Chairman shall have the authority to employ and dismiss employees of the Exchange and to establish their qualifications, duties, and salaries. (Common Practice)
- I. The Chairman shall have authority to execute all authorized contracts on behalf of the Exchange. (Current Practice)
- J. The Chairman is authorized to name and appoint general and special agents, representatives and attorneys to represent the Exchange and describe, limit, and define the powers and duties of such representatives. (Common Practice)
- K. The Chairman may authorize and approve any capital expenditure not exceeding \$100,000. (New)
- L. The Chairman may authorize and approve any unbudgeted operating expenditure not exceeding \$100,000. (New)
- M. The Chairman shall have other authorities as conferred by the Constitution or Rules or as delegated by the Board of Directors. (Current Practice)

EXECUTIVE COMMITTEE

SCOPE OF RESPONSIBILITIES

The Executive Committee is the primary representative of the trading floor in the setting of policy and in setting the future direction of the Exchange. The Executive committee is an extension of the Board of Directors between Board meetings in order to provide continuity of action when necessary. The Executive Committee is responsible to the Board of Directors for its activities.

ACCOUNTABLE FOR

- A. Providing leadership to the trading floor and seeing to it that matters of interest are properly communicated.
- B. Providing trading floor input to the strategic planning, policy setting, and new product development activities of the Office of the Chairman and the Board of Directors.
- C. Maintaining liaison with all standing committees of the Exchange and overseeing the activities of special committees appointed by the Chairman of the Executive Committee.
- D. Coordinating communications among floor committees and overseeing communications between floor committees and the trading floor.
- E. Assisting the Chairman of the Executive Committee in bringing trading floor resources to bear on appropriate tasks.
- F. Advising the Chairman of the Executive Committee on matters relating to the trading floor.
- G. Exercising its power to act for the Board between meetings.

AUTHORITY

- A. When the Board is not in session, the Executive Committee shall have and may exercise all the powers and authority of the Board which may lawfully be delegated to it by the Board and which are not in conflict with limitations created by the Board or with specific powers conferred upon other individuals or committees by the Board, Constitution or Rules. (Const. 7.2)
- B. The Executive Committee is authorized to call special meetings of the Board of Directors. (Const. 6.7)
- C. The Executive Committee is authorized to establish and maintain such member committees as may be deemed necessary from time to time to fulfill its responsibilities in relation to the trading floor. (C.P.)

CHAIRMAN OF THE EXECUTIVE COMMITTEE/VICE CHAIRMAN

SCOPE OF RESPONSIBILITIES

- A. The Chairman of the Executive Committee is Vice Chairman of the Board. He is the primary leader of the CBOE floor constituency and is responsible for overseeing the Exchange's relationship with the trading floor.
- B. The Chairman of the Executive Committee shall be a member of the Board of Directors and an ex officio member, without a right to vote, of all committees without prejudice to his being specifically appointed as a voting member of any committee.
- C. The Chairman of the Executive Committee is part of the Office of the Chairman and is a voting member of the Executive Committee.

ACCOUNTABLE FOR

- A. Overseeing the duties and activities of the Executive Committee.
- B. Providing leadership to the trading floor and seeing to it that matters of interest to floor members are properly communicated.
- C. Assuring effective communications between the Executive Committee and the Office of the Chairman, the Board, and the trading floor.
- D. Providing Executive Committee input to strategic planning, policy setting, and new product development.
- E. Providing Executive Committee input to the process of establishing goals, objectives, and budgets.
- F. Overseeing the Exchange's system of floor committees, appointing committee members, and coordinating committee activities.
- G. Maintaining liaison with all floor committees, coordinating communication among floor committees, and overseeing communications between floor committees and the trading floor.
- H. Advising the Chief Executive Officer on matters relating to the trading floor.
- I. Bringing trading floor resources to bear on appropriate tasks.
- J. Other duties as prescribed from time to time by the Chairman or the Board of Directors.

AUTHORITY

- A. In the case of the absence or inability to act of the Chairman of the Board, or in case of a vacancy in the office of the Chairman of the Board, the Vice Chairman shall exercise the powers and discharge the duties of the Chairman of the Board. (Const. 8.3)
- B. The Chairman of the Executive Committee may call a special meeting of members, for any purpose, unless otherwise prescribed by statute or by the Certificate of Incorporation. (Const. 8.4)
- C. The Chairman of the Executive Committee may fill vacancies occurring among the members of the Nominating Committee with the approval of the Board. (Const. 4.2)
- D. The Chairman of the Executive Committee, with the approval of Board, shall appoint an Election Committee to conduct the annual election. The Committee shall have authority to decide all questions pertaining to the conduct of the annual election and its decision shall be final. (Const. 5.1)
- E. The Chairman of the Executive Committee may call special meetings of the Board. (Const. 6.7)
- F. The Chairman of the Executive Committee shall appoint the members of the Executive Committee, with the approval of the Board, and shall preside at meetings of the Executive Committee and at meetings of the members. (Const. 8.3)
- G. Subject to the approval of the Board, the Chairman of the Executive Committee may appoint standing and special committees unless the method of appointment is otherwise provided for in the Constitution and Rules, and may designate a Chairman and a Vice Chairman for each committee. (Const. 8.3)
- H. The Chairman of the Executive Committee shall have other authorities as conferred by the Constitution or Rules or as delegated by the Board of Directors. (Common Practice)

PRESIDENT/CHIEF OPERATING OFFICER

SCOPE OF RESPONSIBILITIES

- A. The President shall be the Chief Operating Officer of the Exchange responsible to the Chief Executive Officer for overseeing the Exchange's operational activities. He shall be responsible for coordinating with the Chairman on all operational issues affecting Exchange plans and policies.
- B. The President shall, by virtue of his office, be a member of the Board of Directors and an ex officio member, without a right to vote, of all committees, without prejudice to his being specifically appointed as a voting member of any committee.
- C. The President is part of the Office of the Chairman and is a voting member of the Executive Committee.

ACCOUNTABLE FOR

- A. Providing leadership to Exchange staff.
- B. Assuring effective communications throughout the Exchange work force.
- C. Developing and administering operational plans in support of strategic plans and new product development.
- D. Developing financial plans and budgets consistent with the Exchange's strategic plan. Presenting financial plans and budgets to the Financial Planning Committee for approval. Monitoring Exchange financial results for compliance with budgets. Assuring the integrity of the Exchange's financial controls.
- E. Assuring that the Exchange has sufficient resources to support operational requirements and regulatory responsibilities.
- F. Overseeing the Exchange's operating functions including: floor operations, data processing, facilities, finance, human resources, membership services, and market regulation.
- G. Overseeing Exchange liaison with members and member firms with respect to operational issues. Maintaining liaison with the Securities and Exchange Commission, Federal Reserve Board, and other regulatory agencies with respect to market regulation.
- H. Coordinating with other self-regulatory organizations and clearing organizations on operational issues. Overseeing the Exchange's participation on the Options Clearing Corporation's Board, the Options Price Reporting Authority, and the Intermarket Surveillance Group. Overseeing the Exchange's participation in other industry organizations with respect to all operational matters.

- I. Coordinating all communications with the Board of Directors, Executive Committee and other Exchange committees on operational, market regulation, and financial matters.
- J. Representing the Exchange to the membership, the member firm community, the press, regulatory agencies, and in other forums when directed by the Chairman.
- K. Other duties as prescribed from time to time by the Chairman or the Board of Directors.

AUTHORITY

- A. In the absence or inability to act of the Chairman of the Board and the Chairman of the Executive Committee, unless the Board has otherwise designated an Acting Chairman, the President shall assume all of the functions and discharge all the duties of the Chairman of the Board. (Const. 8.6)
- B. The President is authorized to set policy regarding his areas of responsibility consistent with the policies set out by the Board and the Office of the Chairman. (Common Practice)
- C. The President shall have the authority to employ and dismiss employees of the Exchange and to establish their qualifications, duties, and salaries. (Const. 8.6)
- D. The President shall have the authority to execute all authorized contracts on behalf of the Exchange. (Const. 8.6)
- E. The President may authorize and approve any capital expenditure not exceeding \$100,000. (New)
- F. The President may authorize and approve any unbudgeted operating expenditure not exceeding \$100,000. (New)
- G. Other authorities as conferred by the Constitution or Rules or as delegated by the Chief Executive Officer. (Common Practice)