Building an Effective Board-CEO Relationship

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As important as good relationships between board members are, the most important relationship that directors must nurture and sustain is that with their chief executive. Some governance practitioners go so far as to state that the key decision that many boards make is the decision to appoint and work with their chief executive. That being so it is then beholden on the board to support its decision by building a strong partnership that serves the best interests of all concerned. But it is a complex relationship.
Chief executives are expected to be strong independently minded people, who work long hours in the service of the organisation. They are expected to be 'on top' of all of the big organisational issues yet they are employed by part-time, often unpaid masters, many of whom will know only a fraction of what the chief executive knows about the business governed and managed.

The starting point for exploring this relationship is the determination of just what kind of relationship it should be. Should it be a partnership or a boss-subordinate relationship? Should the board 'control' the CEO or should it allow the CEO to control him or herself but within board-determined 'control' parameters? In answering these questions a board should ask itself what it wants from its chief executive. Some boards want a chief executive who will grab the reins and run with the organisation, merely keeping the board informed of where they are being taken. Others want to be in control and have the chief executive merely follow, 'doing the doing' in response to the board's directions. Directors who want to be the 'boss' are unlikely to want a relationship that sees the chief executive adopting a challenging stance with the board, even when such challenges are seen by the chief executive to be in the best interest of the organisation. The board-CEO relationship is complex and potentially full of contradictions. The chief executive is a full time professional employed by part-timers who are mostly amateurs in the operations of the business being governed. That brings its special problems. The chief executive has control of the operations, including the information necessary for the board to make its governance decisions yet the board caries the ultimate accountability for these decisions. The chief executive is expected to provide leadership to the organisation as a whole and, at times to the board, yet the board is the ultimate leadership body. In short, the board depends on the chief executive to make things happen, but the chief executive has only the authorities and freedoms that the board grants.

These contradictions can only be resolved when the board and the chief executive work as a team, as partners or colleagues working together. This can be a notion that some directors and even some CEOs find difficult to swallow.

Building on what we have said in past issues of Good Governance this is the first of a new series of articles that we will devote to exploring different aspects of this vital relationship. In this article we will lay out the ground for a sound and productive relationship. The articles that will follow in successive issues will explore in depth aspects of the relationship providing some practical tips for addressing the many contradictions and challenges that we will identify.

Defining the ground

1. Role clarity is the essential starting point for any effective organisational relationship. This is particularly so when there is an imbalance of authority between the parties. It is vital that the directors and the chief executive understand and respect each other's role and responsibilities, that they understand the difference between governing and managing and support the other in the carrying out of the different elements of their role. Mutual trust comes from such clarity and respect for each other's role and responsibility. In turn this leads to a mutually supportive relationship.

2. Expectations each role has of the other must be explicit and realistic.
High on the list of impediments to the achievement of any successful relationship personal or organisational are two invisible and silent disrupters; undeclared expectations and untested assumptions. Chief executives who do not work to clearly defined board expectations place themselves at great risk. In such a circumstance the chief executive must define the board's expectations and the chances are high that, in so doing, he or she will please no one. The board should make clear what it expects of its chief executive and the chief executive should make clear what he or she expects of the board. Ideally these should in written form and should be regularly reviewed.

A list of director expectations of the chief executive would likely include:

- Loyalty
- Respect for the experience, independence and wisdom of the directors
- The achievement of desired results
- Assistance with strategic and other board-level thinking
- To be treated as a collective group, not singled out and one set against the other
- Honesty and openness
- To be told what a governing board requires to know in order to meet its duty of care
- together with all those other things that the board asks to be informed about
- To be kept abreast of critical strategic issues and events that will or could have an
- impact on the organisation's ability to achieve its desired results, and
- To feel proud of their association with the board and the organisation.

A list of chief executive expectations of his or her board would likely include:

- Clearly stated outcomes to be delivered
- Clearly defined boundaries of authority
- A commitment from the board to speak with one voice
- To be allowed to manage free from interference by the board or individual directors
- Support for worthy effort
- Recognition for achievement and the occasional "thank you"
- Honesty and openness
- Their wisdom and advice
- Availability to act as a sounding board when requested
- Commitment to the organisation and attendance at meetings and workshops having
- done the necessary pre-meeting preparation
- Regular honest performance feedback
- Teamwork and partnership, and
- An honest effort to understand the business governed and the high level
- management issues.

3. Reporting and information requirements

Information is the lifeblood of the board; both about the internal world of the organisation and about the external operating environment. For the most part the information flow is from the chief executive to the board. The directors thus need to make clear to the chief executive exactly what information they require, in what form, about which issues and when. Most boards that we work with have not made such requirements as clear as they might have leaving the chief executive having to guess what the board needs to know. No chief executive should be left to speculate on his or her board's informational needs and this should not be necessary if the board has done its job. Provided the board's interests, requirements and strategic priorities are clear a smart chief executive can anticipate the need for certain information and provide this without needing to be asked.

4. A fair and ethical process for chief executive performance management

Every board has a huge stake in its CEO being successful and the chief executive, therefore, has a right to expect that the board will provide regular performance feedback as part of a wider performance management system. Yet this is something that many boards fail to achieve. Stories abound of boards expecting, implicitly, their chief executive to assume that because nothing negative is said that everything is OK. Few chief executives find this to be a satisfactory approach to this critical relationship element.

A chief executive is employed to achieve certain organisational outcomes determined by the board. His or her performance should be assessed against such achievements. A sound performance management system is continuous rather than occasional and, ideally, provides the opportunity for two-way feedback.

5. The chief executive – chairman relationship

Some governance thinkers argue that there should be no special chief executive-chairman relationship. The reality is, however, that most directors and chief executives agree that there is benefit to be gained from the opportunity for the chief executive to at least form a sounding board type relationship with the leader of the board. For some this may take the form of a regular monthly meeting prior to the board meeting or be occasional on an 'as and when needed' basis. There may be the need for the chief executive to seek the ear of the chairman for policy interpretation or to talk over an issue that is too sensitive to discuss with senior staff and where a second opinion is valued.

For others, however, it is essential that there be regular communication and liaison with the chair – particularly where both the chair and the CEO are constantly in the public spotlight and have to work hard to ensure they are delivering consistent messages. They need to work hard at the partnership which requires frequent regular communication. There is of course danger in the relationship becoming such that it excludes or compromises the board.

We also recognise that other directors may also provide a good sounding board or listening ear so the chief executive – chairman relationship might not be exclusive.

6. The chief executive's role at board meetings

Chief executives must be clear that board meetings are for board business, not a forum to transact management business. This sounds self-evident yet the design of board meeting agenda processes often results in chief executives having control of the board meeting agenda. In such circumstances it is not uncommon for the chief executive to stack the agenda with matters of importance to him or her, rather to focus on the board's job and related issues.

The chief executive has two dominant roles at board meetings

- Providing evidence that the organisation is doing what it should be doing and avoiding
- what should be avoided; and
- Providing advice and support to the board's dialogue and decision-making.

Both of these lend themselves to over or under performance by a chief executive.

Many a board allows itself to be dominated by their chief executive, who is only too happy to have board members provide an audience for an individual performance whose script is centred on reports about operational busyness and activity and matters that should not be of any real concern to the board. Some directors are only too pleased to be led by their chief executive as this absolves them of the need to think deeply about key matters. Instead, those directors rely on the chief executive to do the thinking, make the recommendations and generally guide the board through the decision-making process.

The reticent chief executive too can contribute to an under-performing board. Afraid to voice an opinion or of the view that, as it is the board's meeting, only directors should participate, this interpretation of the chief executive's role at board meetings can be equally counterproductive.

7. Helping the board understand the risks faced by the organisation

Other than those risks directly associated with governing, a board does very little risk management. For the most part it is the chief executive whose delegation entails the management of organisational risk. The board, however, needs to be regularly appraised of the nature of organisational risks and of the organisation's response to these. A chief executive can assist the board to carry out elements of its duty of care by providing assurance of risk mitigation strategies and prompt reporting of key risk issues and management's response to these.

Mutual trust is an essential element in this relationship. The basis for such trust arises from a shared understanding and appreciation of each other's open and honest two way communication, appropriate and timely support and clearly defined expectations.