



# Under pressure: Maintaining a strong board/CEO relationship

Board Leadership Center (India)



As many boardroom leaders know from experience, achieving that ‘healthy tension’ in the boardroom—where the board is an asset to the CEO and management team while maintaining objectivity, independence, and skepticism—isn’t easy. It’s also clear that striking that critical balance will only become more challenging and more important given the mounting complexity of the business environment and the tremendous pressure on boards and CEOs to deliver results.

Rapid technological change and business model disruption, geopolitical uncertainty, and investor demands to hold CEOs and boards more accountable for performance, put strain the board/CEO relationship.

Basis our interaction with corporate leaders from diverse industries, we highlight key areas of focus for directors in their efforts to foster healthy board/CEO relationship:

## Hallmarks of a healthy board/CEO relationship

**1** Insist on candour and transparency



**4** Assess if board’s composition serves management’s purpose



**2** Set clear expectations on board’s role which extends beyond governance



**5** Let CEO take the lead in driving right relationship with the board



**3** Aligned vision to run the firm



**6** Consider how the lead director can facilitate a healthy board/CEO relationship



# 1 Insist on candour and transparency



The starting point for an effective and high-value CEO-board relationship is full, open, transparent communications—both ways.

The CEO sets the tone for management's engagement with the board and committee leaders, and the board's expectation is that 'there will be no surprises from management'. At the same time, management should expect no surprises from the board. Candour and transparency are key to building a culture of trust and confidence between the board and the management team. To put that to a litmus test, bring a work in progress into the boardroom and evaluate how comfortable are CEO and management team in taking board's input.

The lead director can also play a key role as an initial sounding board and facilitate open and productive discussions to draw out any concerns directors might have and communicate those issues to management before the board meeting. That gives management an opportunity to address the issue in an informed way, without feeling that a director is trying to be a 'sharpshooter'.

The CEO or lead director should provide constructive feedback to the board, both in private and in board meetings. This feedback should be specific, actionable, and focused on improving performance.

# 2 Set clear expectations on board's role which extends beyond governance



The board's role today extends beyond compliance and monitoring and includes ongoing engagement in strategy, exposure to the organisation's talent, and serving as an asset for the CEO and management. The emphasis today on the board's fiduciary and compliance responsibilities often overshadows its responsibility to serve as a strategic asset to the CEO and senior management team in creating long-term value.

## Strategy

The real value of a board is to help the CEO meet the company's objectives. Directors who have a great understanding of the business and have relevant business or professional experience can provide valuable guidance and counsel—if a conduit exists for them to do it. Besides, the board needs to have a laser-like focus on strategy and ensure that it is continually assessed by stakeholders.

## Talent

The board should review and approve the talent strategy of the company, ensuring that it aligns with the company's strategic objectives and values. They can identify the talent gaps by reviewing talent pool and the areas that where new skills and competencies are needed. Also, the board must work with the CEO to ensure that the organisation

has a robust succession plan in place for key leadership positions, including the CEO's position.

## An asset to the CEO and management

CEOs want to view their board as an asset that adds value. They need someone who has wisdom that can be leveraged, someone who has a record of experience, perhaps as a former CEO, and has experience in dealing with a crisis, and dealing with activist shareholders. Hence, it is a priority job of the lead director/chair of the committee to enable the board as an asset to the CEO. The expectation that the board will serve as an asset must be made clear to all directors—and emphasised during the new director onboarding process and reinforced in board and individual director performance assessments.

### 3 Aligned vision to run the firm



Ensuring that the CEO and the board agree on how the firm will be run is critical for the success of the organisation and creating long-term value. However, clearly defined roles and responsibilities of the CEO and the board can help avoid misunderstandings and ensure that both parties are working towards a common goal. To stay aligned in their thinking and work objectives, the CEO and the board should work together to develop a shared vision and mission for the organisation. Working towards a shared goal requires regular communication that ensures that both

parties are informed about the organisation's performance, strategic direction, and critical issues. The board and CEO must also agree on—and continually reassess—the company's growth strategy, the assumptions underlying it, and the company's innovation efforts. Addressing these issues will form the basis of a pact between the CEO and the board that makes explicit the guiding philosophy of the firm, how it will define and create value, achieve success, and the framework for making decisions.

### 4 Assess if board's composition serves managements purpose



The board's composition should be assessed to ensure that it has the appropriate mix of skills, experience, and diversity to provide the necessary resources and guidance to the CEO and management. Assessing whether board composition and dynamics enable it to serve as an asset for the CEO and management requires a thorough evaluation of the board's overall effectiveness, engagement, relationship with the CEO, communication with management, and governance policies.

In today's competitive environment, boards need directors who understand oversight responsibilities and can act as a sounding board for management with their experience of dealing with challenges in the past. Boards – through their committee structure – can help bring the right focus and attention to enable the long-term value creation of the company.



## 5 Let CEO take the lead in driving right relationship with the board



An important responsibility for the CEO is to set the tone and help build a relationship of trust with the board—and within the board—and to help make the board more productive and efficient.

Particularly on the issues that are most critical to the long-term success of the company—such as strategy, risk management, talent, management succession, and the culture throughout the organisation.

Boards are teams whose members perform critical functions but who work in concert with one another; the CEO needs to work deliberately with the lead director/chair of the committee on building the team of the board. Not maintaining effective relationship may hurt them in turn.

Finding the right level of engagement can be a difficult challenge for the CEO, which is why the lead director plays an important role in helping the CEO get it done.

## 6 Consider how the lead director can facilitate a healthy board/CEO relationship



Lead Director's role is to help the CEO get her/his job done by communicating with the board, and to facilitate transparency and trust among board members and between the board and the CEO and management by ensuring that their collective views are being heard and considered. Communication and delivering feedback from both sides holds the key in lead director's role and it should be clear, timely, and consistent.

To leverage the collective expertise of the board for company's benefit, the lead director should go through the set of issues the CEO is currently managing and determine whether the issues should be raised to the board or committee level and who in the board might have expertise in managing each issue. This way, the lead director can maintain right focus and attention to pertinent issues—such as strategy, innovation, disruption and strategic risks, capital allocation, performance, leadership, and talent—that are most critical to the company's success and long-term value creation.

To sum it up, the role of lead director should never be understated; success of the board would depend on the strength of the person who is anchoring it. The ideal fit would be a person who is compatible with the CEO but is not biased and has earned their place through expertise and trust. Someone who can communicate well with the investor community; someone who gets out in front and has conversations; Someone who knows their role versus the CEO role in discussing issues with investors.



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and beyond

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