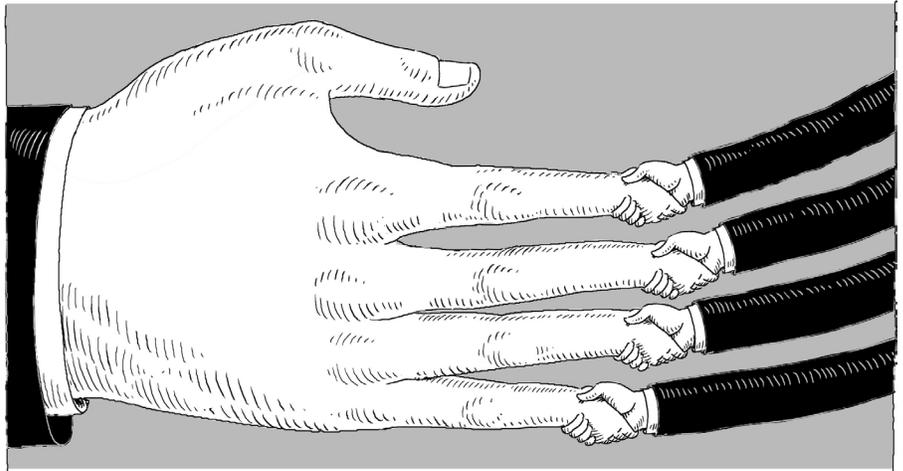


IN TOUCH WITH THE BOARD

Essential Elements of an Effective CEO-Board Relationship: A Model for Boards Led by Non-executive Chairmen

Essential Elements of an Effective CEO-Board Relationship builds on the ongoing work of our global CEO and Board Services practice in assessing critical board composition, governance and performance issues. This discussion is meant to help boards led by non-executive chairmen understand the defining activities and attributes of the best CEO-board relationships—relationships that consistently contribute to organizational performance and superior results.



Our goal is twofold: To provide boards and CEOs with a clear understanding of the essential elements of an effective CEO-board relationship and to enable boards and CEOs to both assess and improve their current performance in delivering against each of these relationship attributes. We have identified 25 essential elements of an effective CEO-board relationship, each with an actionable defining standard. We hope these prove useful in assessing the health and quality of the relationship dynamics in your firm.

I. Relationship Responsibilities of the Non-executive Chairman

- **Effectively advises the CEO:** The chairman serves as a critical mentor and advisor to the CEO. Beyond an ability to advise on the content of strategic decisions, the chairman provides thoughtful, actionable guidance on how to effectively translate strategy into action. The chairman maintains an open-door policy for the CEO to seek guidance.
- **Asks tough questions:** The chairman asks probing, penetrating questions on the logic of strategic decisions and the dynamics of organizational performance. The chairman consistently demonstrates the courage to ask tough questions.
- **Acts when necessary:** The chairman doesn't hesitate to act when the standards of governance and fiduciary responsibility require intervention. The chairman is willing to get his/her "hands dirty" when circumstances require a hands-on approach (e.g., crisis management).
- **Maintains right attitude on strategy and succession:** The chairman owns and embraces an active leadership role in CEO succession. The chairman makes clear that he/she will play a critical role in leading the board discussion on approving strategy but that he/she won't attempt to usurp the CEO's responsibility for developing strategy.
- **Demonstrates full commitment and engagement:** The chairman maintains and demonstrates a deep commitment to the performance of the organization, and this commitment clearly is reflected in his/her level of engagement on issues of critical importance to the performance of the firm. The chairman brings a spirit of energetic teamwork to all interactions with the CEO.

- **Collaborates with the CEO to establish expectations, agendas, processes and decision rules:** The chairman is clear on the board's expectations of the CEO. The chairman collaborates with the CEO and seeks his/her input in establishing board agendas, processes and decision rules. The chairman sets precise expectations on the inputs upon which the board needs to make decisions.
- **Proactively seeks to build professional relationships with management team:** The chairman seeks to build professional relationships with key members of the management team. The chairman has keen insight into the profiles (backgrounds, personalities, capabilities) of these critical executives.
- **Effectively communicates and facilitates:** The chairman always is available and communicates openly, proactively and transparently with the CEO and directors. The chairman is uniquely able to facilitate useful discussions with the CEO and the board. The chairman encourages forceful discussions yet manages the dialog toward positive outcomes.

II. Relationship Responsibilities of the CEO

- **Informally builds relationships with board members:** The CEO proactively works to communicate and build relationships with the chairman and directors via regular, informal interactions outside of board meetings. The CEO uses these interactions not only to share information and gather input but also to develop strong "professional chemistry" with each member of the board.
- **Communicates openly, proactively and transparently:** The CEO maintains a strict "no surprises" policy with the board. The CEO is fully and effortlessly transparent on the implications and risks of strategic decisions.
- **Proactively seeks board input outside of board meetings:** Outside of board meetings, with the knowledge of the chairman, the CEO actively and informally seeks board members' informal input, feedback and guidance on strategy. When the CEO presents strategies for approval, he/she is able to predict (and acknowledge) likely areas of disagreement with individual board members.
- **Provides exposure to the executive team:** The CEO facilitates informal introductions between members of the board and members of the management team. To facilitate succession planning, the CEO frequently brings members of the management team to board meetings, where managers play a substantive role. The CEO encourages board members to advise key managers on issues tied to their specific areas of expertise.
- **Fully commits to the idea of an independent board:** The CEO is fully committed to the concept of an independent chairman and board. The CEO accepts the board's role in choosing his/her successor and actively supports succession management. The CEO partners with the chairman to strengthen the board. The CEO works to avoid the development of board factions.
- **Balances strong points of view with openmindedness and flexibility:** The CEO communicates clear, compelling points of view but also demonstrates uninhibited willingness to fully consider and apply the board's views. The CEO encourages the board to challenge his/her assumptions. The CEO effectively challenges the assumptions of board members.
- **Recognizes the power of complementary skills on the board:** The CEO recognizes the value of a board populated by individuals with skills and perspectives that are distinct from (and complementary to) his/her own. The CEO feels strengthened by board members who maintain skills/expertise that are superior to his/her own. The CEO doesn't play politics with the board.

III. Relationship Responsibilities of Directors

- **Effectively advises the CEO:** Directors advise on the substance of strategic decisions. Directors provide thoughtful, actionable guidance on how to effectively translate strategy into action. Directors maintain an open-door policy for the CEO to seek guidance.
- **Asks tough questions:** Directors ask probing, penetrating questions on the logic of strategic decisions and the dynamics of organizational performance. Directors consistently demonstrate the courage to ask tough questions.

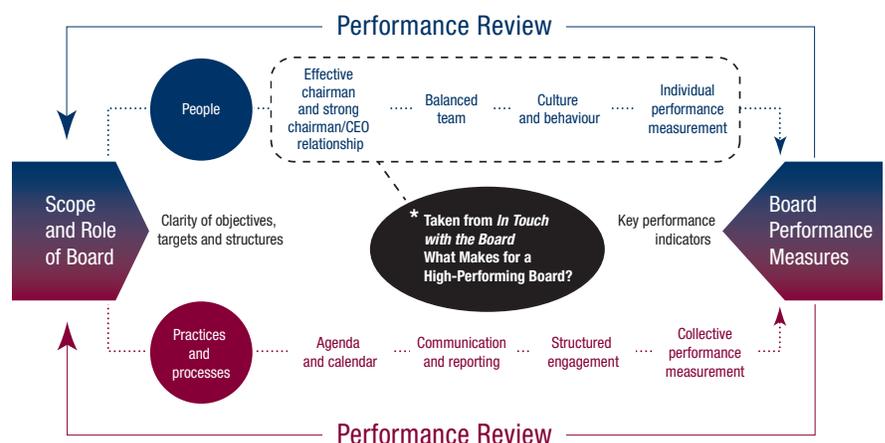
- **Acts when necessary:** With the agreement of the chairman, directors don't hesitate to act when the standards of governance and fiduciary responsibility require intervention. Directors are willing to get their "hands dirty" when circumstances require a hands-on approach (e.g., crisis management).
- **Demonstrates full commitment and engagement:** Directors maintain a deep commitment to the performance of the organization, and this commitment clearly is reflected in their level of engagement on issues of critical importance to the performance of the firm. Directors bring a spirit of energetic teamwork to all interactions with the CEO.

IV. Shared Relationship Responsibilities

- **Commits to act in best interests of the firm:** All parties recognize and embrace their obligation to work in the best interests of the firm.
- **Builds close but independent relationships:** All parties work to build robust professional relationships but ensure that these relationships demonstrate the independence required for the CEO to do his/her job and for the board to maintain objectivity in reviewing the CEO's recommendations and performance.
- **Establishes precise expectations:** All parties set distinct expectations for themselves and for each other. All parties establish clear objectives. All parties keep their promises.
- **Establishes distinct roles and responsibilities:** All parties maintain clearly defined and communicated roles and responsibilities. All parties are completely knowledgeable about their own responsibilities and the responsibilities of their counterparts.
- **Demonstrates humility, self-awareness and a "low-ego approach":** All parties bring a genuine level of intellectual and professional humility to each interaction. All parties are self-aware of their strengths, weaknesses and limitations. All parties are comfortable with having their ideas rigorously challenged.
- **Demonstrates honesty, trust, respect and transparency:** All parties work to establish relationships characterized by the highest standards of honesty, trustworthiness, respect and transparency. All parties work to create an environment characterized by mutual respect. All parties are fully transparent regarding their opinions, plans and underlying motivations.

Conclusion

We developed the framework for *Essential Elements of an Effective CEO-Board Relationship* with the input of sitting CEOs, chairmen and directors from a range of industry sectors and regions to provide guidance and structure for boards as they assess the clarity of their roles and the effectiveness of their relationships across the board as a whole. The 25 essential activities and attributes identified here can serve as a diagnostic to help those involved in the process rate the importance of each role's responsibilities, as well as determine how effective individuals currently in these roles are delivering against those responsibilities.



Author

Our **Global CEO and Board Services practice** has an ongoing commitment to investigate critical corporate governance and board performance issues and to share our findings—with the aim of promoting discussion and adoption of best practices in board oversight.

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Americas

Atlanta

1180 Peachtree St., NE
Suite 2250
Atlanta, GA 30309-3521
United States of America
Tel: +1-404-577-3000

Boston

One Federal Street, 25th Floor
Boston, MA 02110-1007
United States of America
Tel: +1-617-523-1111

Buenos Aires

Buenos Aires Plaza
Manuela Sáenz 323
Seventh Floor, Suites 14 and 15
C1107CBP Buenos Aires
Argentina
Tel: +54-11-4118-8900

Calgary

Suite 750, Ernst & Young Tower
440-2nd Avenue SW
Calgary, Alberta T2P 5E9
Canada
Tel: +1-403-776-4174

Chicago

155 North Wacker Drive
Suite 4100
Chicago, IL 60606-1732
United States of America
Tel: +1-312-993-9696

Dallas

8401 N. Central Expressway
Suite 650
Dallas, TX 75225-4404
United States of America
Tel: +1-214-220-2033

Houston

600 Travis Street, Suite 2200
Houston, TX 77002-2901
United States of America
Tel: +1-713-754-5995

Los Angeles

11100 Santa Monica Blvd.
Suite 350
Los Angeles, CA 90025-3384
United States of America
Tel: +1-310-775-8940

Mexico City

Torre Reforma
Paseo de la Reforma
115-1502
Lomas de Chapultepec
México 11000, D.F.
México
Tel: +52-55-5249-5130

Minneapolis/St. Paul

225 South Sixth Street, Suite 2550
Minneapolis, MN 55402-3900
United States of America
Tel: +1-612-332-6966

New York

200 Park Avenue
Suite 2300
New York, NY 10166-0002
United States of America
Tel: +1-212-351-2000

Palo Alto

260 Homer Avenue, Suite 202
Palo Alto, CA 94301-2777
United States of America
Tel: +1-650-233-2400

San Francisco

101 California Street
Suite 2900
San Francisco, CA 94111-5829
United States of America
Tel: +1-415-352-3300

São Paulo

Edifício Eldorado Business Tower
Av. Nações Unidas, 8501
11º Andar
05425-070 São Paulo - SP
Brazil
Tel: +55-11-3566-2400

Stamford

301 Tresser Boulevard
Suite 1210
Stamford, CT 06901-3250
United States of America
Tel: +1-203-905-3341

Toronto

Scotia Plaza, Suite 3410
40 King Street West
Toronto, ON
M5H 3Y2
Canada
Tel: +1-416-364-3355

Washington, D.C.

1701 Pennsylvania Avenue, NW
Suite 400
Washington, D.C. 20006-5810
United States of America
Tel: +1-202-654-7800

Asia/Pacific

Beijing

Unit 3422 China World Tower 1
No. 1 Jian Guo Men Wai Avenue
Beijing 100004
China
Tel: +86-10-6535-1188

Hong Kong

Room 1801, Alexandra House
18 Chater Road Central
Hong Kong
China
Tel: +852-2523-9123

Melbourne

Level 51, Rialto Towers
525 Collins Street
Melbourne VIC 3000
Australia
Tel: +61-3-9603-1300

Mumbai

Unit 9(A), Grand Hyatt Plaza
Santacruz (East)
Mumbai 400 055
India
Tel: +91-22-6733-2222

New Delhi

203, Eros Corporate Tower
Nehru Place
New Delhi 110 019
India
Tel: +91-11-4603-4600

Shanghai

Room 4504, Jin Mao Tower
88 Century Avenue
Pudong, Shanghai 200121
China
Tel: +86-21-6163-0888

Singapore

2 Shenton Way
#08-01 SGX Centre 1
Singapore 068804
Singapore
Tel: +65-6225-1811

Sydney

Level 40, Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
Tel: +61-2-9258-3100

Tokyo

Izumi Garden Tower 14F
1-6-1 Roppongi
Minato-ku, Tokyo 106-6014
Japan
Tel: +81-3-5114-3700

Europe

Amsterdam

World Trade Center
Tower H, 18th Floor
Zuidplein 148
1077 XV Amsterdam
The Netherlands
Tel: +31-20-305-7630

Barcelona

Edificio Prisma
Avda. Diagonal, 613, 2ºA
08028 Barcelona
Spain
Tel: +34-93-494-9400

Brussels

Boulevard St.-Michel 27
B-1040 Brussels
Belgium
Tel: +32-2-743-12-20

Copenhagen

Kongens Nytorv 3
DK-1050 Copenhagen K
Denmark
Tel: +45-33-69-23-20

Frankfurt

OpfernTurm
Bockenheimer Landstr. 2-4
60306 Frankfurt
Germany
Tel: +49-69-75-60-90-0

Hamburg

Stadthausbrücke
1-3/Fleethof
20355 Hamburg
Germany
Tel: +49-40-480-661-0

London

Almack House
28 King Street
London SW1Y 6QW
United Kingdom
Tel: +44-20-7839-7788

Madrid

Calle Miguel Angel, 11
Seventh Floor
28010 Madrid
Spain
Tel: +34-91-319-7100

Milan

Via Mascheroni, 5
20123 Milan
Italy
Tel: +39-02-430-0151

Munich

Maximilianstraße 12-14
80539 München
Germany
Tel: +49-89-24-89-81-3

Paris

7, Place Vendôme
75001 Paris
France
Tel: +33-1-49-26-13-00

Stockholm

Hamngatan 27
SE-111 47 Stockholm
Sweden
Tel: +46-8-545-074-40

Warsaw

Belvedere Plaza
ul. Belwederska 23
00-761 Warsaw
Poland
Tel: +48-22-851-68-38

Zürich

Löwenstrasse 28
CH-8001 Zurich
Switzerland
Tel: +41-44-447-30-30