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To Improve Governance, Improve the CEO-Board Relationship

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CEOs and boards face mounting challenges in running a company today, as everything from increased regulatory scrutiny to unrelenting business travel takes its toll. To manage these issues, CEOs and boards can improve processes and communication and even restructure roles. However, one lever stands out in terms of its potential impact, but ironically often receives the least attention: the relationship between the CEO and the board. When the two parties fail to see eye to eye, even the best structures, processes and communication efforts lose their effectiveness.

For example, one organization we work with hired a new board chairman whose only exposure to the CEO during the interview process was a 40-minute meeting. As a result of this poor practice, the two individuals failed to develop a relationship, which ultimately led to dysfunction in the boardroom.

Another company had a chairman who was meticulous in terms of managing processes, documenting information and running a clear agenda. But she was relatively isolated from the CEO and other board members between meetings. That remoteness inhibited a sense of teamwork and trust, and eventually led to her ouster. In other words, the “soft” stuff matters. Personality disconnects can result in lost opportunities and value for companies and shareholders.

So how can organizations optimize the CEO-board relationship? Based on focused conversations with veteran chief executives and board members, we identified the key characteristics that distinguish the best relationships from the rest:

Non-executive chairmen must not be afraid to ask tough questions. This is easier said than done, as the line between governance (a board responsibility) and management (a CEO responsibility) is often blurry. In addition, a perceived attack by the chairman can undermine a CEO’s trust in that director.
To overcome the challenge, chairmen should ensure before the board gets together that the CEO knows what kinds of probing questions they typically ask. Early warning will help minimize surprises and foster a constructive environment. The key is balance: maintaining trust while ensuring that the right issues are sufficiently probed.

CEOs should build relationships with directors through informal engagement. The challenge here is that time is limited, and people tend to underestimate the professional value of informal interaction. A good practice is for CEOs and individual board members to engage in non-work-related activities of shared interest outside the boardroom.

Increasingly, board meetings are preceded by dinners that limit shop talk and encourage spouses and significant others to attend, with an eye toward deepening interpersonal relationships. At the same time, CEOs and board members must maintain enough distance so that close personal ties never come first.

The CEO and board members should collectively establish precise expectations for themselves. Expectations can be difficult to articulate, since they’re more abstract than, say, financial benchmarks. In addition, different team members can have differing assumptions about what’s expected of them and of others.

To overcome these collective differences, the board should set aside time during a board meeting to test, agree upon and formalize key expectations for the group. Using external parties to assess board performance can also be helpful in bridging the expectations gap.

With the agreement of the chairman, directors shouldn't hesitate to speak up — and to act — when standards of governance and fiduciary responsibility require intervention, especially during crises. A common reason directors can be slow to respond to issues is that groupthink can prevent them from recognizing problems early. Increasingly, boards are looking to external parties to assess their performance and identify areas for individual and group improvement.

As the demands on companies and their leaders continue to evolve, it is critical that CEOs and board members focus not only on what decisions get made but how they are reached. Improving the CEO-board relationship, we have found, is critical to improving corporate leadership.

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