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Why Every Board Needs a Solid Connection With Their CEO

Learn how to build a powerful working relationship with your CEO, understand where it can go wrong, and the seven things that every board can do to get it right.

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Two out of Five CEOs fail within three years[1]

The success of your Chief Executive Officer (CEO) comes down to having a solid connection between the board and the CEO. But how does a board do that while avoiding the common mistakes which destroy this critical relationship? It starts with the board understanding its overall purpose and role within the organisation and cascading that down through the CEO position and relationship using proactive and practical methods to ensure organisation success.

Before discussing the methods of creating a solid working relationship between the board and CEO, let's first consider who the CEO is and what their relationship is to the board.

Who is the CEO and what is their relationship to the board?

The CEO title is generally used to describe the most senior manager within a company or organisation. They are the 'Chief' of a team of 'Executives'. Or, to use a legal term, the chief 'Officer' of other 'Officers'.[2]

1. Raju Narisetti (McKinsey & Company), Author Talks: What separates the best CEOs from the rest?, 15 December 2021, https://www.mckinsey.com/featured-insights/mckinsey-on-books/author-talks-what-separates-the-best-ceos-from-the-rest

2. The term 'Officer' is used within the Corporations Act 2001 (Cth) and includes a person: (i) who makes, or participates in making, decisions that affect the whole, or a substantial part, of the business of the corporation; or (ii) who has the capacity to affect significantly the corporation's financial standing; or (iii) in accordance with whose instructions or wishes the directors of the corporation are accustomed to act (excluding advice given by the person in the proper performance of functions attaching to the person's professional capacity or their business relationship with the directors or the corporation)...

This key person within the organisation can go by other titles:

- **Chief Executive Officer**
- **Executive Officer**
- **General Manager**
- **Managing Director**
- **Executive Director**
- **Managing Partner**

The title may be different; however, the role and function may look very similar across organisation types.

There is a significant difference when the title has 'director' in it (i.e. Managing Director and Executive Director). This nomenclature indicates that the person is a director of the company and holds the day-to-day responsibility for the organisation. This is the same within partnerships with the Managing Partner role (e.g. law firms).

Whatever title this role carries, they are the person who:

- **Has major responsibilities for the day-to-day operations of the organisation**
- **Works with the board to develop the strategic vision and planning to realise this vision**
- **Leads the organisation's performance (e.g. implementation of strategic goals, maintaining budget, continuous improvement, monitoring business unit performance and the performance of direct reports, evaluating and succession planning of all direct reports annually)**
- **Acts as the organisation's spokesperson (as delegated)**
- **Leads risk management activities**
- **Maintains a safe work culture and environment**
- **Develops senior managers' capabilities**
- **Holds significant financial delegations as determined by the board.**

Who is the CEO to the board?

The CEO is the person whom the board works with and through to ensure that the strategic goals of the organisation are achieved.

Often, the CEO is referred to as the board's only employee. This means the board is solely involved with the CEO's appointment, monitoring and replacement. The board does not generally become involved with hiring, evaluating and replacing other employees within the organisation.

The CEO and other senior management (or other employees) will work with the board to prepare the strategy for the organisation, ensuring adequate board input balanced with senior management's perspective from within the organisation. The board will then approve the organisation's strategic plan and will set a budget that supports its achievement.

The board then delegates to the CEO various financial, decision-making and other authorities that align with the strategic plan and corporate vision in a way which enables the CEO to execute the strategy while the board maintains sufficient oversight and control where necessary.

The role of the board

The board must first understand its role within the organisation in order for it to be able to effectively work with and through the CEO.

David Nadler presents five different types of boards: passive board; certifying board; engaged board; intervening board; operating board. Generally, we think of boards in Australia and New Zealand as being the 'engaged board'; however, each type of organisation requires a specific type of board to meet its needs at a particular point in time. In addition, certain types of non-governing boards (e.g. advisory boards) serve different purposes, will be categorised across the other board types and will have a different type of relationship with their CEO.

When the board knows its purpose, the board members will gain clarity on their purpose, and the role and function and responsibilities of the CEO will naturally flow from that.

Whatever the role of the board is at a particular time, the board must proactively work at achieving the right balance of encouraging and supporting the CEO, versus challenging and holding them accountable.

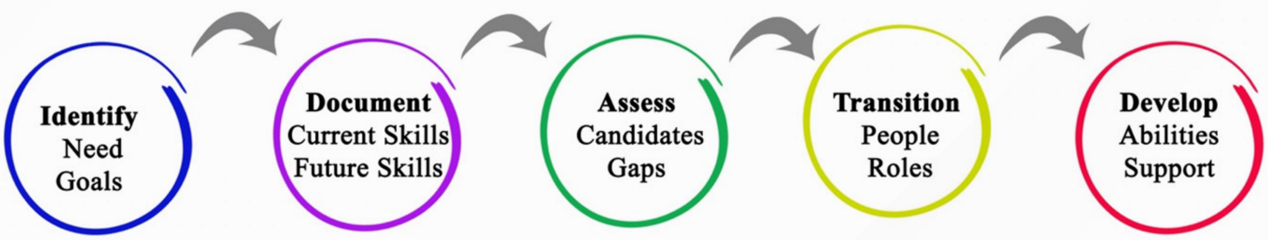
For more on determining your board's purpose, visit https://www.boardpro.com/resource-centre/webinars/creating-sustaining-high-performance-boards

3. David A. Nadler, Building Better Boards, Harvard Business Review, May 2004, https://hbr.org/2004/05/building-better-boards.

Primary functions of the board in relation to the CEO role.

Regardless of the organisation's size and type, there are several key functions relating to the CEO role that every board has responsibility over. Adequate time, energy and focus on each of these is a valuable investment, will support the organisation to sustain its operations, and will free up the board to focus on the important things (rather than micromanaging a dysfunctional CEO).

1. CEO Succession Planning



Succession planning ensures that the board is always prepared to replace and appoint the CEO position at any stage. It is an area of corporate governance where it helps to be proactive and prepared for three types of CEO succession:

- **Planned succession (via retirement or forthcoming end of contract).**
- **Emergency succession (through unforeseen events where the CEO is unable to continue to act as CEO).**
- **Forced succession (where a CEO is removed before the end of a contract, i.e. gets 'fired').**

The more work you can do as a board in preparation for any type of succession, the more it will be well worth the effort. This includes activities such as:

- **Preparing and maintaining an up-to-date list of required and desired CEO candidate criteria (i.e. skills, qualities, attributes)**
- **Identifying a talent pool: a list of candidates who meet these criteria from inside or outside of the organisation**
- **Dedicating time for the board to discuss CEO succession and its surrounding plans. Aim for about 15% of the board's time for these conversations and at least once per year for a longer, more in-depth discussion.**

The CEO profile

Having a ready-to-go profile or outline for the CEO position is a valuable part of any board's toolkit. It comes in handy and serves many purposes:

- **When working with a recruitment firm supporting the board in the CEO search**
- **For the board to use to identify suitable candidates to have on its 'candidate target list'**
- **An evaluation tool for CEO candidates**
- **An evaluative tool to use to assess the current CEO**
- **Salary/remuneration benchmarking.**

When considering the elements that go into a CEO profile, consider including their requirements relating to:

- **Strategic vision and planning**
- **Strategy execution across the organisation**
- **Leadership skills**
- **Performance goals for their direct reports**
- **Public relations/spokesperson**
- **Succession planning and mentoring (for themself and their direct reports)**
- **Any other critical organisation-specific requirements.**

Recruiting the CEO

Appointing the 'right' CEO is very important. If this is done inadequately then it's a long road and the relationship may never flourish.

Therefore, a significant time investment must be made in the CEO recruitment and appointment process. The board, with external expertise where necessary, should ensure adequate time is allocated to:

- **Interviewing short-listed candidates**
- **Discussing and making the decision as a board whom to hire**
- **Preparing and negotiating the contract and other items**
- **Onboarding/inducting the CEO**
- **Setting the CEO's 'first 100 days' milestones.**

Naturally, the goal is to end up with the best candidate, ensure they are remunerated appropriately (in line with their benchmarked job description/position outline and organisational resources), that they are properly and sufficiently embedded into the organisation and its community, they know what is expected of them in their first 100 days, and they are resourced to achieve these outcomes.

Where does your CEO come from?

CEO appointments can come from within the organisation or external to the organisation. Depending on what is needed from the CEO role, the board must balance external fresh ideas versus a known quantity to the board from within the organisation.

2. Supporting the CEO

After the hard work of finding, recruiting and onboarding a new CEO, the focus can now shift to the board and CEO working together; primarily, how the board can best support the CEO to do their job.

Using the CEO profile, along with the CEO role's success measures, milestones and key performance indicators (KPIs), it's time to create some infrastructure to enable the CEO to execute their requirements. It's a tricky dance for a board to be sufficiently involved and engaged without micromanaging, while also maintaining adequate oversight and control.

To achieve this, three main pieces of board infrastructure must exist which enable the CEO to do their job and for the board to execute its governance role:

1. **Delegations**
2. **The CEO Report**
3. **Regular Board Chair CEO Meetings**

2A Delegations: The board's remote control

Once the board and the CEO have the organisation's strategy and key milestones mapped out, the next thing to do is ensure the board delegates appropriately and sufficiently so that the CEO can execute and deliver on the strategy, meet the required milestones and satisfy other KPIs not attached to strategic goals (e.g. health and safety, culture).

A Delegations Policy defines the elements of corporate governance that the board has passed on the authority of to the CEO (and others as required – referred to as 'agents'). The board still maintains its responsibility for the acts conducted by its delegate(s) (i.e. the CEO and others).

Alongside the policy is the Delegations Schedule. This document details the limitations of the delegated authorities to the various agents. This document is quite detailed and can include delegations and their respective limitations relating to financial expenditure, use of corporate credit cards, purchase/sale of assets, employment of people, entering into service agreements and representing the organisation in public and in legal matters.

These documents are a significant component of any board's corporate governance infrastructure and must be evaluated each year (or more often if required) to ensure they meet the governance needs of the organisation and that the delegations enable the CEO to do their job while allowing sufficient board oversight.

2B The CEO Report

The CEO Report is the board's primary mechanism of receiving a comprehensive update on critical aspects of the organisation's performance over the past period (generally since the last board meeting).

This important governance document is worth deeply considering as to its content, how regularly the board is to receive it, and the format in which it's delivered (and updating all of these as and when necessary).

How regularly the report is received is a decision for the board to make in conjunction with the CEO (considering the workload that comes with preparing their report). For boards that meet every month, it may be included with the monthly board pack. For boards that meet every other month, its board members may receive a CEO Report every second month, or may prefer to receive an update in between board meetings as well.

When considering the contents of the CEO Report, it's important to keep it concise and focused on the right issues at the right time. Does it speak only to the governance-level concerns, and doesn't delve too deeply into operational matters?

It must be well-written and self-explanatory, including content on any or all of the following: current significant issues; matters for approval (beyond delegated authority); updates on strategic/business operational plan implementation (milestone progress); risk and compliance updates (outcomes and incidents); and matters for noting.

Click here to download a CEO Report guide and template!

Usually, the CEO Report is a written document and is aided by practical visual elements (tables, graphs, traffic light-style updates) to help the board gain a quick and easy overview of the current state of the organisation. It's important to note that the CEO does not regurgitate the report contents at the board meeting; rather, they may expand on the report and answer board questions during the meeting.

What information the board receives, the format the information is in and the frequency of receiving information are all matters for the board to decide on. It is a legal right. Exercise it as and when required to ensure board members are making informed decisions.

2C The Board Chair-CEO relationship

The Board Chair acts as a mentor and delivers 'tough love' to the CEO of the organisation. Their relationship is respectful and professional, delivering valuable outcomes to the board and organisation. To optimise this relationship, the Board Chair and CEO must:

- **Meet regularly through formalised and regular meetings. Made at a time interval that is appropriate and workable.**
- **Discuss longer-range agenda-setting as well as dealing with short-term issues/ constraints.**

The Board Chair and CEO must determine how they will best work together by considering:

- **The key things to be achieved in the next year.**
- **The expectations each has of the other (particularly in regard to the Board-Chair-CEO communication channel).**
- **How the board will interact with and assist the organisation and the CEO.**
- **How the CEO will report to the board.**
- **How board meetings will be organised and serviced (agenda preparation; key focus areas; papers to be prepared and their format; meeting minutes and level of detail).**
- **The role the CEO has in board effectiveness.**
- **The information the Chair wants/does not want.**
- **Confirming who the principal external organisation spokesperson is.**
- **Developing a shared understanding of organisational issues when going into board meetings (ensuring no surprises land during a Board meeting).**

It's important that the Board Chair–CEO relationship is one that maintains safety and confidentiality, and that the Board Chair keeps the board in the loop regarding their conversations while maintaining this confidentiality. It is therefore important that the role of the Board Chair is clear and documented.

3. Evaluating CEO Performance

4. List adapted from The Book of the Board: Effective Governance for Non-Profit Organisations (3rd ed) by David Fishel, The Federation Press, 2014.

An annual performance review of the CEO is a feature of every good board's annual calendar. This performance review provides the board with an opportunity to reflect on the CEO's performance (good, bad and otherwise) over the past 12 months. However, it is not to be a stand-alone, once-a-year surprise.

The annual formal performance review should supplement ongoing feedback delivered to the CEO throughout the year, usually by the Bord Chair. It can be facilitated by a committee of the board or a panel of selected board members, with external expertise (if required).

The formal annual CEO performance evaluation is a documented process where the CEO is given a chance to review their own performance and for the board to do the same for the CEO, along with sourcing feedback from important third parties to the organisation (e.g. employees, government, key suppliers, key customers).

The results of the performance review are to remain confidential between the board and CEO, with the review committee or panel determining how the performance review feedback is delivered to the CEO (and useful feedback must be delivered to the CEO, often by the Board Chair and Deputy Chair together).

At the end of this review period and the start of the next one, the CEO should be made aware of their performance requirements and the board's expectations.

Setting CEO Key Performance Indicators (KPIs)

For the CEO to achieve the board's expectations, there must be clarity on what success is for the CEO. Usually, the organisation's strategy (set collaboratively with the board, CEO and key employees) is an important document where the board can establish the CEO's KPIs. Additional sources of KPIs can come from:

- **CEO position description/employment contract**
- **Results from the prior year's performance review.**

The board can use these documents to answer the questions: **"What does great look like?" or, "What would it look like when the CEO is doing a great job?"**

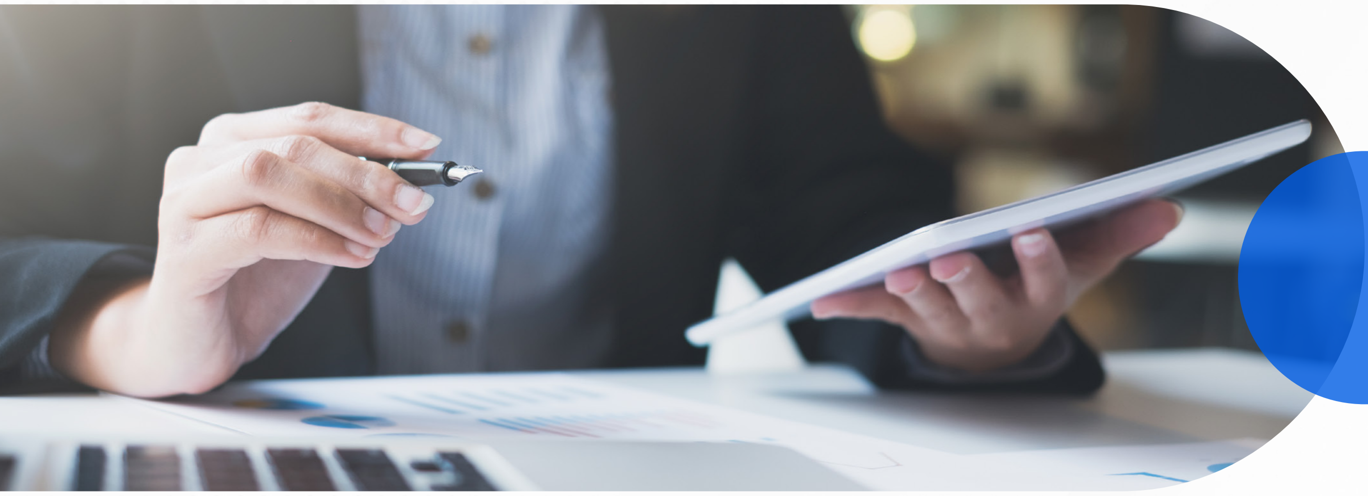
The board will then gain a clear picture of what they need to do or provide to the CEO to set them up for success. At this point it may be beneficial to work through the KPIs with the CEO to ensure these are pragmatic and achievable (being careful that the CEO doesn't dilute or compromise the KPIs; avoid a 'tail wagging the dog' scenario).

How many KPIs should the board set?

It's always wise to focus on the priorities and the things that matter. Generally, four to six 'macro' priorities are a good rule of thumb. What the CEO can achieve is heavily influenced by whether they are a full-time or part-time CEO, the depth of organisation resources, and how substantial the organisation's priorities are.

The board can keep updated on progress or activity in the priority areas from the CEO Report. This provides an opportunity for positive reinforcement, or course correction before things go beyond repair, including the board CEO relationship.

Always remember that the CEO is a human! Please ensure the board makes the performance review and KPI setting a considered and respectful process.



Where the Board-CEO relationship can go wrong.

The board CEO relationship is one that requires ongoing work to maintain optimal dynamics and results. There are two perspectives to consider regarding where problems may originate. But, like with any relationship, ‘it takes two to tango’, so each side shares equal responsibility in keeping the board–CEO relationship firing on all cylinders. Here are the main origins of where the board–CEO relationship can go wrong, from both sides of the table.

From the board’s perspective:

- **Having former CEOs around the board table:** It is a challenge for the current CEO if a former CEO is a board member (or even someone who is currently a CEO of another organisation). The former CEO may become overly focused on how the CEO is doing their job and become too operational in their board role. If they regularly think the CEO is ‘doing it wrong’, it may begin to negatively impact their ability to provide appropriate oversight and support to the CEO.

- **Lack of understanding of the role of CEO and the role of board member:** This is a common root cause of many frustrations of both board members and CEOs. If there is poor or no clarity on each role, confusion and frustration ensue as everyone makes up their own versions and attempts to put those forward. This situation becomes worse if each board member begins giving their own instructions to the CEO on what they should be doing or how they should do their job.

- **No performance requirements and/or performance reviews:** As discussed above, for the CEO to achieve the board’s performance expectations, there must be clarity on what success means for the CEO and for the organisation. Answer the questions: “What does great look like?” and “What would it look like when the CEO is doing a great job?” Close the loop on performance by conducting regular performance reviews of the CEO. Performance reviews provide the board with opportunities to reflect on the CEO’s performance (good, bad and otherwise) over the past period of time (at least formally every 12 months).

- **Burdensome contracts:** The CEO’s employment contract with the board is a critical document so it is important for the board to invest the time, energy and money to get it right. The board must ensure that the CEO contract works for the organisation and the CEO. It is important that the contract does not inadvertently burden the organisation; e.g. large payouts for early contract cancellation and large guaranteed annual salary increases. Invest in external expertise to ensure this document is correct.

- **Micromanaging:** It's a common challenge for new board members to move out of 'doing' mode and into an 'oversight' role. It is pragmatic for board members to focus on the what and why rather than the how – within reason, of course. Requiring the CEO to provide overly detailed descriptions of the work they are doing is a drain on organisation resources and board time. Board members should focus on high-level, critical issues, rather than 'getting into the weeds' of the CEO's activities.

- **Too little oversight or disengagement:** At the other extreme are board members who are disengaged or do not provide sufficient oversight and leadership to the CEO. It's a complete abdication of the important governance role that board members hold and the Board Chair must take active measures to raise board member engagement up to the required level to ensure CEO and organisation success.

- **No healthy engagement between the Board Chair and CEO:** The Board Chair–CEO relationship is most effective when it is respectful and professional, delivering valuable outcomes to the CEO, board and organisation. To optimise this relationship, the Board Chair and CEO must meet regularly on a set schedule that works for all parties, and focus on longer-range agenda-setting as well as dealing with short-term issues/constraints.

From the CEO's perspective:

- **Unclear performance requirements and expectations:** This is as much of a problem from the CEO's perspective as it is from the board's. The CEO will be greatly challenged if there is a lack of clarity on what it is they are working towards achieving.

- **Not meeting performance requirements and expectations:** Not having clear performance requirements will naturally lead to not meeting the outcomes or expectations. Or, the CEO may have clear requirements yet not meet those and be underperforming. A discussion about missed requirements and unmet expectations is needed as soon as these issues arise, for the board's sake as well as the CEO's.

- **No disciplinary actions when they underperform/'misbehave':** A swift and meaningful response to an underperforming and misbehaving CEO is required by the board. It is a critical risk to the organisation for a dysfunctional CEO to remain in the position without disciplinary actions being taken immediately and pragmatically, in line with the presented problems.

- **Mixed messages or poor communication from board members:** Unclear performance requirements and expectations will lead to mixed messages and priorities from board members. Board members may themselves send mixed messages on priorities and requirements to the CEO during board meetings or in one-to-one communications. The Board Chair must ensure that the board members knows their role and the role of the CEO and be united in agreement on the priorities for the CEO.

- **Controlling and sanitising information/creating a false front or view of the organisation to the board:** The board relies on the information provided to it by the CEO. Therefore, there must be a significant level of trust and confidence in the information delivered by the CEO. As board members are not in the business on a day-to-day basis, there is a risk of important information being sanitised or changed to give a false impression of the organisation's performance. The board members asking great questions and approaching information in a trust-but-verify manner will help to pick up any anomalies and concerns.

- **CEO dominating the board/'tail wagging the dog':** The CEO and board are in partnership and work together to achieve the desired outcomes for the organisation. They have two different but interrelated jobs. It's important for each to act in the relevant capacities so that board members can govern effectively, and the CEO can lead the day-to-day organisation effectively. Watch out for signs of the CEO getting overly involved in board activities, particularly the recruitment of new board members and setting distracting agendas that don't focus on critical governance areas and issues.

- **No healthy engagement between the CEO and Board Chair:** The CEO-Board Chair relationship is most effective when it is respectful and professional, delivering valuable outcomes to the CEO, board and organisation. To optimise this relationship, the Board Chair and CEO must meet regularly on a set schedule that works for all parties, and focus on longer-range agenda-setting as well as dealing with short-term issues/constraints. Be aware of a CEO who is 'too busy', feels that they don't need to spend any one-to-one time with the Board Chair, or may be negatively working with or influencing the Board Chair.

Seven things that every board can do to have a great working relationship with their CEO.

1. Have a robust and clear employment contract

The CEO's employment contract is a critical document so it's important for the board to invest the time, energy and money to get it right. This may be an area where the board invests money in professional advice and legal preparation of the contract. It may need to be relied on in the future, and it helps to have a document that is properly prepared and sound. The board must decide what it and the organisation need and want from the CEO role and ensure this is incorporated into the contract. Contract negotiation with the potential new CEO must be done with the essential elements in mind to ensure these are retained in the final version.

2. Have a clear, co-created strategy with milestones and KPIs

Knowing what success looks like for the organisation is critical to enable everyone to know the role they play in achieving that outcome, particularly for the CEO to ensure its accomplishment and for the board to make sure the appropriate resources have been allocated to achieve success. From the strategy flows milestones and key performance outcomes that have been deemed necessary. These measures help to focus the board, CEO and organisation on their decisions and actions, and provide a basis for CEO performance evaluations.

3. Implement a robust process for CEO performance evaluation and delivery of feedback to the CEO

As mentioned above, CEO performance evaluation and feedback is one of the board's role in relation to the CEO. This must be scheduled on the annual board calendar and a process developed for evaluation and feedback each year. It may help the board to delegate the process development and evaluation activity to a board committee, with feedback of the evaluation given to the CEO by the Board Chair and Deputy Chair together. Setting clear annual milestones and KPIs helps the CEO and board to know what success looks like and provides a basis for performance evaluation.

4. Remunerate the CEO fairly and reasonably given the organisation's resources

Every organisation has finite resources. The CEO must always be remunerated fairly and reasonably according to the organisation's available resources. It may help to benchmark the CEO role to develop a clear picture of what is fair and reasonable at a particular point in time (this may be an area where the board invests in external expertise). Beyond remuneration, find non-monetary ways to increase the CEO's 'package'. For example, an additional week of annual leave could be incorporated into their remuneration package, rather than an increase in base pay. Incentives and bonuses are often included for the achievement of certain goals and to support the retention of great CEOs. A combination of short-term and long-term outcomes can be used as a basis for bonus payments, to avoid overly focusing on short-term goal achievement (at the expense of long-term organisation sustainability).

5. Invest in the CEO's growth and development (in relevant areas)

Continuous learning and development is something that is beneficial across all levels of the organisation. Part of the annual budget and/or CEO remuneration package must include resources dedicated to continual growth, usually into predetermined areas (based on the prior year's performance evaluation results or strategic needs of the organisation). These resources can be put towards courses, seminars, programs, books, or any other learning material. Importantly, investing (through time and/or money) into the CEO having a mentor outside of the board can be extremely valuable.

6. Educate the board members on the role of the CEO and the board–CEO relationship, and the role of the CEO and Board Chair

Having clarity on the role of the board, the role of board members, the role of the Board Chair and the role of the CEO, and how all of these roles interact is important to ensure they function smoothly together. Without role clarity, each individual comes up with their own version of their role and acts towards that version, leading to dysfunction. As mentioned at the beginning of this white paper, clarity and understanding of everyone's roles leads to creating effective infrastructure to execute on those roles and increases the board's effectiveness.

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5. For more on CEO incentives and bonus systems, see: PwC, Making Executive Pay Work: The Psychology of Incentives – a global study into the impact of pay and incentives on senior executives (2012), https://www.pwc.com.au/consulting/assets/publications/making-executive-pay-work-aust-may12.pdf.

7. Take swift action when things start to break down/become dysfunctional with the CEO

Dysfunction with the CEO (either the person or the role) happens on a spectrum. Essentially it is demonstrated through the CEO not operating optimally or not performing as required. At the first signs of dysfunction, action must be taken to course correct before the relationship becomes beyond repair. It helps for the board members to have a regular in-camera session at each of their board meetings to provide the opportunity to raise any CEO-related concerns with the Board Chair without the CEO present. The Board Chair usually has the responsibility to work with the CEO to address the concerns and move them towards achieving their optimal performance.

About Get on Board Australia

GET ON BOARD AUSTRALIA

Get on Board Australia is the hub for aspiring and new board members, helping them to secure their ideal board positions and thrive in the boardroom. Get on Board Australia offers free-to-access resources via its website and Board Shorts podcast, affordable educational courses through its Academy, and provides custom workshops and seminars for boards and board members across Australia.

About BoardPro

We exist to increase boardroom productivity and create better functioning boards. We don't believe good governance processes should be left to the domain of larger companies. We know that all parties in a board/management relationship want to use their time and resources most efficiently and productively. We found that a product that helped with the processes, workflows and guidance to work on the right things was missing from the market. So we developed BoardPro in partnership with some of the best independent directors and most progressive CEOs.