The CEO's Role in Creating a Stellar Board

By

Linda D. Henman, Ph.D.

Whether you're creating an advisory board or learning to work with a board of a privately held or publicly-traded company, the real challenge for directors and executives isn't regulatory compliance—it's high performance. To achieve it, directors and executives need to systematically examine the five constructs of a successful, stellar board.

Leadership

Thought leaders do not share a common opinion about the best way to lead a board. Some steadfastly hold to the notion that the CEO and board chair should be the same person. Others think the roles should be split. A third camp posits that the CEO should have the chair responsibilities with a separate "lead director" position designating the top director position. In my opinion, the chair and CEO roles should remain separate. Both directors and the CEO can be more effective when the roles and duties of the chair differ from those of the chief executive. Also, when these roles are held by different people, the chair can act as a lubricant between the two entities, especially when inevitable conflict occurs.

Shareholder activists strongly support this position, but in practice, it remains below 50% in larger corporations. Each argument has its merits, but you probably won't get to vote unless you own the company. Usually the existing board hires a new executive to fill a seat that has been vacated, and the new person soldiers on with the established tradition.

Unless you are a CEO who also serves as the chairman of the board, you probably won't have board leadership responsibility in an overall sense. However, even if you are a non-chair CEO, the CFO, or General Counsel, you will have duties related to keeping things on track. Your primary leadership responsibility then will be to develop a relationship with your counterpart on the board. For instance, the CFO should work closely with the chair of the audit committee.

Executives who find themselves interacting with the board have the leadership responsibility to keep the group focused on the right issues. When you present information, whenever possible, do it in a summary or bullet format. Directors have learned to hate the sound of the Power Point ginning up, so use it sparingly. If you must, limit the number of slides.

Too often directors assume the role of sponges who simply absorb that which you put in front of them. Part of your leadership duties requires you to prepare questions that will stimulate

dialogue. If the data remain in their heads, what good is it? You need to guide the process of making the implicit explicit—of making knowledge pragmatic advice.

If you can do that, your next duty is to move the discussion to consensus. The discussion should uncover all kinds of differing points of view, but ultimately the board needs to ask itself, “So what?” What will directors support, if the decision is theirs? And how will executives use the insights they have gained from the debate to influence the decisions they will make?

Rapport with the CEO

Board success starts with the relationships between the directors and the CEO. Therefore, you should regularly disagree with the board, and robust debate should occur, but never at the expense of good rapport. Embrace tension. Move beyond the outdated thinking that the board is a necessary evil and realize that a certain degree of tension is both healthy and desirable. Contention, however, is not productive. You should ask questions and question answers but all in a climate of candor and responsiveness. Trust, respect, and open communication form the foundation of any strong relationships; board relationships are no exception.

When building rapport with the board, the CEO should keep top of mind the importance of predictability, excellence, and honesty. Directors need to trust you to do what you say you will do, to uphold the values of the organization at all times, and to conduct your personal and private life with the utmost integrity. Gone are the days of CEOs expecting directors to trust them in business decisions when they have clearly not represented the highest ethical standards in their private lives.

Open communication holds the keys to the kingdom of good rapport. Naturally you’ll need to be on the same page with regard to the company’s vision, mission, values, and strategy.

But you'll need to go beyond that. Do you agree about what success will look like? Can you routinely bring the conversation around to priorities?

One tool that many CEOs find helpful is a "template" for formal conversations and briefings. When you present information in a pre-determined way, directors become accustomed to hearing issues in a predictable format. They will follow you more closely and know what to expect. If you present bad news with the same equilibrium and dispassion as you do good news, they will learn that they can trust you not to hide information or to tell them what they want to hear.

Executives tend to worry too much about what they will say instead of concentrating on how much they listen. In general, be quiet every chance you get. Most CEOs make the mistake of talking too much during meetings. If the directors in the room are not worth listening to, you have the wrong people on your board. A meeting in your chance to hear what they have to say and to benefit from their collective knowledge and expertise.

Remember, you communicate at all times. You cannot not communicate. Your behavior in and out of board meetings will speak volumes about who you are as a person, and each nugget of information will give directors reason to build rapport with you—or to avoid doing so.

For instance, do you feel threatened by directors talking to others in your chain of command? If you don't encourage directors to go to the source of information, you appear to have something to hide. If you put up roadblocks, you compromise trust.

Of course, boundaries should exist. Encourage the "nose in/ fingers out" model. Negotiate the levels of involvement on critical issues, and have clear lines of accountability for making decisions and for director involvement. For example, no director should approach one of your people without notifying you. And certainly, no one should reprimand one of your people

without you being in the loop. If a director does one of these things, you should express your displeasure, but don't try to limit access. Trust is a two-way street, as is communication.

Focus on Strategy

Too often boards of directors don't understand when and how they should be involved in strategy. When earnings decline, a competitor makes a sudden move, or a merger or acquisition looms, they come to life. But often it's too late. By not getting involved earlier in the game, directors deny executives and the company in general the value of their input.

Stellar Boards do better. They don't formulate strategy, but they maintain a clear focus on it. They assess and critique it. Like the princess in the story about the pea, directors need to detect flaws deep in the strategy—not to execute but to detect and report. The challenge for executives, therefore, is to make sure directors have all the necessary information to do their job.

Sounds simple. Why then is strategy such a source of angst? One reason is that too often boards and executives don't take a systematic approach to how they will interact with regard to strategy. The board discusses strategy piecemeal over a period of time, often in relation to something else. Or, when executives present the strategy as a finished product, directors sit idly and contribute little.

Contrast these practices to the process that the Stellar Board uses, not only to reach full agreement on the strategy but also to shape it. Executives articulate the strategic direction and clarify the measurements, criteria, timelines, and standards for evaluating it. Then, directors ask questions and offer opinions. This list offers a starting point for this discussion:

- Does the company have the resources, financial and human, to execute?
- Have they considered the full range of external factors?
- Have they sufficiently examined risk?

- Are the assumptions valid?
- What is the company's competitive advantage?
- How does this strategy leverage it?
- Will customers benefit?
- How will we make money with this strategy?

When directors ask these questions, they ensure that management has not made a major market entry or other strategic decision based simply on instinct, historical experience, or guesswork. Executives should anticipate these questions and prepare answers for them. If directors don't ask them, put them on the table yourself.

As the board reshapes and improves the strategy, directors and management reach a common understanding about what future success will look like. Once the strategy is set, solicit the help of the governance committee to ensure the directors' skills and talents are aligned with the strategy. Executives and directors working together on strategy is like a dance. Sometimes you lead, and sometimes you follow. But you try to avoid stepping on each other's toes, because when the music stops, you want to make sure you still have a chair.

Succession planning

Many of the general principles of organizational succession planning apply to how you will work with the board to help them determine your replacement. Here are my recommendations. Some are specific to the CEO, but most pertain to any executive who regularly meets with and relies on the board.

1. Openly discuss your plans for retirement. This isn't an easy topic for directors to broach with you, so take the lead. If your plans change, let them know that too.
2. Map out the specific role you will play in finding and preparing your replacement.

3. Working with the board, develop selection criteria. Instead of putting together a list of attributes, keep a future orientation. Think about what will be required of executive positions in the future, not what you or anyone else has done in the past.
4. When you find yourself two years away from retiring, identify an internal replacement, or oversee the recruitment of one.
5. Identify high potential candidates for each executive position ten to fifteen years before any one of them is likely to reach the executive level. Let the board know them and interact with them.
6. Encourage a discussion of emergency replacements. Sometimes this replacement will be a director. When that's the case, work closely with that person so the company can recover from the sudden loss of any executive.
7. As you consider the future of the company, consider what groups you might not have represented in the current C-suite. For example, if you plan to expand in Latin America or Mexico, having a bicultural, bilingual executive or director might help you serve your growing market.
8. Consider the experience of your successor, but don't over emphasize it
9. Encourage the executives in your C-suite to spend time with each director. Suggest each executive initiate a private dinner with one director each quarter. It will strengthen relationships and increase confidence on both sides.
10. Finally, work with the board to define the stages of transition. First, create a list of likely candidates for each executive position. Then place each in a series of expanding roles that give candidates the opportunity to learn and the board the chance to assess them. Don't publicly announce who the candidates are, even when people start to become aware of

who is being developed. Promote the top contenders with expanded roles or titles. What you don't want is what people commonly refer to as a "horse race." Setting up a competition causes people to express loyalty to friends and perceived winners. The tension can cause damage to morale and nervousness among investors. Also, you can lose valued talent if that person doesn't win the race. Keep in mind that a dead horse can cause quite a thud just by falling!

Governance

"Governance" is another of those all-encompassing words that people use but that few can explain in concrete terms. The dictionary defines governance as supremacy, domination, power, or authority. When used for corporations, it usually means general board oversight.

Governance underpins the board's ability to do all the aspects of its job. While strategy and succession planning address specific "What?" questions, governance deals with the "How?" It includes but is not limited to decisions about the board's size, frequency of meetings, director selection, shareholder relations, and social responsibility. When a board has a governance committee, those directors initiate action plans with specific timelines for implementation of recommendations. This committee should have the authority to shape and recommend policy and structure.

The existence of a governance committee doesn't let the CEO or other executives off the hook. To be part of a Stellar Board, executives need to play an active role in how things happen. Have strategy drive the agenda. Regulatory issues will control a considerable portion of each meeting, but you and the chair can collaborate to control the rest.

Of course an agenda will guide the actual meeting, but you can do more to streamline governance. For instance, when the board meets, tackle important, difficult, and unpleasant

issues immediately. If you wait several hours, everyone will be tired and impatient. You'll get a better caliber of discussion earlier in the day, and the energy will be higher once you've made the tough decisions.

Most boards hold executive session meetings *following* the board meeting. Once again, if this meeting occurs late in the day, people will be spent. You can benefit, therefore, from what I call an "executive session sandwich." In other words, meet *before* the general meeting to address critical issues and then use the low-energy time after the session to tie up loose ends.

Another energy-zapper is the board book. Often these epics make *War and Peace* look like *Cliff Notes.* Use the board book to inform, not persuade. If the book includes mountains of data with little salient information, directors will overlook key issues. Lead with a summary page, the questions you'd like to discuss, and the topics that merit debate. In short, discuss, don't present the book.

Whenever possible, enrich committee reports too. Typically, these reports include a detailed description that lacks relevant information or that rehashes an entire committee meeting or topic. Directors are busy people. Aggregate the critical information; present it in summary form; and offer analysis, not just information.

Above all, avoid death by Power Point. At a recent convention of the National Association of Corporate Directors, people actually snarled when someone mentioned the use of Power Point. Too often the slide presentation offers little more than the book in electronic format, and the presentation eats up valuable meeting time. Dialogue, not more slides, holds the key.

Another key to good governance lies in better leveraging your directors' contributions. Encourage directors to communicate regularly about their experience and expertise. You should

know how to pull this from the directors when you need it, but if you have never formally gathered this kind of information, it won't exist in a time of emergency or decision-making.

Constantly evaluate whether the directors' skills, talents, and experience support the current strategy. In general, you will want directors that exhibit integrity, good judgment, strategic skills, financial literacy, confidence and high performance standards. But occasionally you might also need an industry authority, an international expert, a turnaround specialist, or a government procurement professional. Play an active role in the selection of new directors, and work closely with the governance committee to choose the best and brightest that will bring diversity of thought to your board.

Unless you are the chair, evaluating the board won't be your primary responsibility, but you can still drive it. Encourage regular evaluations of directors. Have a clear, agreed-upon purpose for conducting the evaluation. Do you want to improve overall performance? Individual performance? Drive shareholder value? Or eliminate someone from the board? If it is the last, a formal evaluation might not be the best route. Clarify how information will be collected, who will have access to it, and how it will be presented to the directors collectively and individually.

When doing board evaluations or committee evaluations, both interviews and surveys work. However, all records should be "paper and pencil" so they can be shredded to protect confidentiality. The minutes will represent a summary of the process, forms, action steps, and ratings, but only in general terms, such as, "using a 5-point scale, all members of the governance committee received a 4.0 or higher on their ratings." Any papers distributed at meetings should be collected and destroyed.

Include an assessment of committees in a board evaluation. What is the quality of their reports? Are they transparent? What is the overall relationship to the board? Does the committee drive shareholder value? Make evaluations complete, thorough, and efficient. Asking each director to complete an exhaustive survey—or even worse, an exhaustive survey on each peer—is an enormous use of time, and many of the directors will either not do them or will not do them in a timely fashion. When using a survey for the entire board or committees, customize it to your needs. Measure *only* those categories that are directly applicable.

Routinely evaluate the composition of the board, not just the performance of the directors. As the direction and strategy of the organization shift, so should the skills and experiences of the directors. Present the balanced findings to the board, encourage discussion, identify ways to leverage strengths, spotlight areas where adjustments need to occur, and formulate an action plan and timeline for moving forward.

In a confidential format, have directors evaluate their peers based on observable behavior that highlights how this person can add more value. Then, provide one-on-one, private feedback to each director, preferably delivered by a third party.

Ask the board to conduct separate evaluations of key executives at least once a year, but seek timely feedback in executive sessions or private conversations. Above all, *don't create materials that can be subpoenaed.* Doing these things won't guarantee you'll have a well-run board, but you will have taken significant steps in the direction of goodness.

Conclusion

Now, more than ever, directors are taking their responsibilities seriously, speaking up, and striving for results; but in many cases, the evolving relationship between the company's executives and the board has not found the right symmetry. Finding it will depend on several

factors: investing in your professional development, surrounding yourself with knowledgeable peers, and doing your part to create a stellar board.