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Board, CEO & Senior Executive Relationships

The future success of a company can depend greatly upon the competence of a board, CEO and senior leadership team and the state of relationships between them. Are these internal relationships given sufficient weight in governance discussions, in comparison with the attention given to accountability and reporting to shareholders? Are the relationships satisfactory? Is the whole greater than the sum of the parts?

Are boards, CEOs and senior executives enhancing or reducing each others effectiveness and potential? Are they alligned and pulling in the same direction? Is there mutual respect or suspicion between them? Is there clarity in relation to their respective roles and responsibilities? Are they sufficiently aware of each others' issues and/or deficiences? Are the dynamics within both boards and management teams healthy, or are they dominated by particular individuals?

Governance Preoccupations

Corporate Governance has its advocates and champions, and there are vested interests that benefit from their being as much “governance” as possible, preferably of the complex and time consuming variety. Shareholders may look to corporate governance arrangements and company law to protect their interests. Other stakeholders may hope for more recognition of their interests as and when governance codes are reviewed or new legislation is introduced.

The priority of many regulators is to protect the public from abuse. Where the actual or potential abuse is of power, the spotlight sometimes falls on CEOs. Corporate governance and company law debates are often couched in terms of strengthening the roles of shareholders, independent directors and regulators. There are calls for greater accountability, more checks and balances, and additional monitoring and reporting. In some jurisdictions, the issue is curbing the powers of CEOs.

Listening to some portrayals of the contemporary governance situation, one might be pardoned for imagining hordes of overpaid, greedy and rampaging CEOs that weak and 'rubber stamp' boards are failing to contain. How realistic is such an impression? Is there a grain of truth behind the headlines? Is more corporate governance, or a different form of it, the answer? Do powerful CEOs need to be reined in by directors and by strengthening shareholders' rights? Alternatively, are ambitious and visionary CEOs hamstrung by timid and risk averse boards?

Effective Board and CEO Relationships

The relationship between board and CEO, and certain other members of a senior leadership team such as a Chief Financial Officer (CFO), can be a vital one for a company's prospects. Board responsibilities include the appointment of a CEO, ensuring that a competent management team is in place, monitoring their performance and periodically reviewing their effectiveness. An ambitious board with a stretching vision should have high expectations of what is acceptable. Similarly, an ambitious CEO might expect an effective board composed of competent directors.

Satisfactory relationships between boards and CEOs cannot be taken for granted. Few relationships can be maintained at a satisfactory level without thought and effort from the parties involved. An ascending spiral of growing trust and mutual respect can be followed by a descending one of mutual suspicion that breeds further

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uncertainty and distrust. Boards need to manage their relationships with CEOs and senior executives. Likewise CEOs need to manage their relationships with boards and executive teams. A CEO who is also concerned with relationships with key customers, suppliers and investors might engage in 360 degree management and be subject to 360 degree assessment.

The first sign that all may not be well could be a disparaging remark during a recess, or an off the cuff comment while waiting for people to assemble prior to a board meeting. Directors who 'bad mouth' executives should remember that executives will also have views on their performance and the value they add. CEOs are sometimes disparaging of boards in unguarded moments. For example, a comment like “leave it to me, I will fix the board” suggests a group that can be easily manipulated.

Some relationships become very strained, and a board may be divided on what action to take. A reluctance to grasp nettles can result in a stand off or inaction. An insecure or Machiavellian CEO might keep potentially controversial issues from a board, with or without collusion involving a board chair or certain executive directors. Where executive directors strongly support their CEOs, attempts may be made limit the involvement of a board and non-executive directors with differing views to statutory functions required by the applicable Companies Act.

Differing Perspectives on Governance Arrangements

From the perspective of a CEO and a senior executive or leadership team, how are corporate governance arrangements viewed? Are they seen as a minor irritant or a major problem? Are they perceived as a negative “hinder”, or more positively as a “help”? Are boards and non-executive directors thought to be contibuting and adding value in relation to the cost to a company of maintaining, managing and supporting them? Are they just walking overheads?

From the perspective of members of a senior executive team, is contemporary corporate governance an enabling or constraining factor in relation to how they would like to operate and what they would like to do? Do they feel they, their organisations and those who depend upon them, benefit from the contributions of boards, accountability to shareholders and stakeholder engagement and support, or are these outweighed by the delays, costs and distractions they involve? Is there a gap of understanding and commitment between an executive team, a board and a company's owners that is difficult to bridge. In short, do they regard corporate governance as an obstacle or an enabler?

Given contemporary connectivity and digital technology, and in relation to some aspects of their roles, are directors and boards an unnecessary layer of bureaucracy between shareholders and a CEO and executive team? Would some companies benefit from more democratic forms of governance? Are there situations in which a committee of shareholders might be preferable to a board? Might some CEOs prefer to cut out the “intermediaries” and have more direct relationships with shareholders? Do other CEOs see a board as shielding them from interfering shareholders?

The CEO's Viewpoint

From the perspective of CEOs it can be lonely at the top. To whom can and do they turn for independent, objective and honest advice? Could this be a board? Alternatively, because of the duties and responsibilities of directors and the board's role in the selection, appointment and monitoring of CEOs, is a more intimate relationship impossible? Is it also undesirable, when independent directors need to retain a degree of detachment and all directors should be focused upon a company's future success? Are other senior executives seen as subordinates or colleagues?

Do CEOs welcome having an additional sounding board or group to which they can turn for the consideration of certain questions? Do some board chairs provide helpful guidance? Are non-executive directors regarded as interfering busibodies or providers of objective advice? Where boards provide strategic direction, is this welcomed, accepted or resented? On the whole, is there openness, transparency and mutual trust in the relationship between CEO and board, and/or executive and non-executive members of boards, or is there wariness and some suspicion?

Might viewpoints on such questions influence how senior executives and CEOs approach their relationships with boards, shareholders and other stakeholders? Do some of them engage in practices to prevent what they see as independent director interference, and play games to minimise, neutralise or manage such involvement? Do some board chairs collude, ensuring that directors receive voluminous board papers they are unlikely to understand, and pushing through items of business that are positioned on agendas to allow the minimum of discussion?

Relationships between Boards and Management Committees

Senior managers and executive directors are likely to meet regularly to discuss operational matters between board meetings, and to consider any issues arising and/or changes of direction and policy emanating from board meetings. For many companies, especially rapidly growing ones during a time of change and transformation, Monday morning meetings may be the norm. In relation to corporate governance and beyond a scheme of delegation, what should the relationship be between a board and a management committee? Should the latter be part of the formal governance structure?

In some jurisdictions, there has been a trend towards smaller boards. In part, this has been a response to the requirement for non-executive or independent directors in corporate governance codes and difficulty in identifying suitable candidates. One way of achieving a stipulated proportion of independent directors is to reduce the size of a board. Where this occurs, one consequence is that fewer executives hold board appointments and have exposure to other directors, and an opportunity to develop a cross-discipline perspective that embraces the totality of a company's situation.

Where there are fewer opportunities for senior executives who are members of a management committee to experience board meetings, what steps should be taken to help them obtain the overview perpective such involvement can bring? Does a CEO take active steps to develop senior executive colleagues, broaden their perspective and arrange a succession? Alternatively, are other executives viewed as potential rivals and kept in the dark? Is the CEO a self-interested gatekeeper?

Where management committee members are functional heads, a CEO may need to encourage them to develop a perspective that goes beyond their personal executive responsibilities. Options for doing this could include cross-functional projects, consideration of company wide issues, discussing certain matters ahead of board meetings and report-backs after them, arranging meetings between directors and senior executives, specific presentations to the board, and encouraging service on other boards to help develop a directorial perspective.

An Improving or Worsening Situation?

Is the situation, relationship and mutual trust and respect between a board and a senior management team improving or getting worse? Is corporate governance maturing or moving in the wrong direction? Is "governance" that important? Are senior executives pursuing corporate strategies, policies and priorities inspite of boards, rather than because of them? Importantly for many executives, are they securing the high levels of executive pay they would like to have and that many comentators criticise and certain politicians decry? Do some boards, and remuneration and other board committees, simply act as rubber stamps?

Is much of the practice of corporate governance reduced to box-ticking, simply because it is not thought to be sufficiently important to justify devoting more time to exercises such as annual board reviews? Do some CEOs prefer cosmetic and compliant boards, whose members do not ask awkward questions, allowing them to get on with the serious business of running a company and building a business? Alternatively, has a lack of challenge and other corporate governance deficiences contributed to public distrust of business and governance scandals? Why don't we learn from investigations of such failings and the associated question "where was the board?".

For cynical and jaundiced members of the public, who have been alienated by reports of "excessive" executive remuneration and the reluctance of both senior executives and directors to express regret when corporate failings and scandals occur, is it a case of a plague on all of their houses: boards, CEOs and senior executives alike? Are these groups seen as a self-interested "establishment" that is furthering it's own interests at the expense of shareholders, other stakeholders and the public?

Engagement with Investors and other Stakeholders

Good governance practice is for directors to take the interests of all stakeholders into account when decisions are taken by a board. The lifestyles and futures of many executives and other employees, are largely dependent upon their jobs. Given the importance of companies for other stakeholder groups, why is investor engagement and involvement felt to be so important and desirable? Since the origins of limited liability companies, a separation of ownership and control has been at the heart of corporate governance. Have CEOs and management committees been overlooked?

How many investors have the time and competence to contribute to discussions and debates? With family companies there is often disagreement among family members about what the priorities should be. Hence the establishment of trusts with powers delegated to trustees. What is so special about investors in relation to other stakeholders? Many are unaware of investments that have been made on their behalf by fund managers and have very small stakes in any one entity. In contrast, employees - and many customers and suppliers – can have a much greater stake in a company.

The interests of different stakeholder groups may not necessarily be aligned. What if investors were given additional powers and pursued their own interests at the detriment of those of other stakeholders and the best long-term interests of a company? Do other stakeholders also deserve to have a stronger voice? Why single out shareholders, and why is their is voice so critical when employees, customers and suppliers can and often do exert their influence. Employees, customers and suppliers are often in a far better position than shareholders to judge many aspects of corporate operation and performance.

Addressing the Situation

If public faith and trust in business and capitalism is to be raised, if not restored, in some sectors, markets and jurisdictions do CEOs, senior executives, directors and boards need to reassess their relationships and how they can better work together to improve outcomes and relationships? Does such a review need to embrace shareholders and other stakeholders? Critically, how many boards are actually thinking about their relationships with CEOs and other senior executives? Where they are not what could be a catalyst for action, whether a board review or a question from a director?

Sometimes it can be helpful if a director makes a first move. The trigger could be an over confident CEO or CFO who has a thick skin and a teflon coating, and who seems to have the support of certain other directors. Alternatively, a director might feel that some board colleagues are impatient and overly critical of a CEO who is on the right track and deserves more time. Either way, it may require courage to raise an issue that has long been swept under the carpet.

The relationship between a CEO and board chair is a critical one. Their roles and responsibilities need to be complementary without causing boundary issues or leaving gaps. Complementary personalities and experience and mutual trust and respect can also help. Both should be able to consider and discuss relationships between a board, CEO and other senior executives from the perspective of what is in the best interests of a company. When the same person is both a CEO who chairs management meetings and a board chair, does this create conflicts of interest?

To ensure reviews of CEO and executive performance are objective and uninhibited, periodic board meetings and/or private discussions should take place without officers being present. Other committees are advised to do likewise, for example the members of an audit committee should have periodic discussion with internal and external auditors as appropriate without a CEO or CFO being present. Where this is not normal practice and an element of the annual callendar of business, the holding of such a meeting could trigger alarm bells and set tounges wagging and minds racing. ■