



Board best practices for a CEO and executive team

Description

“My board frustrate the hell out of me, we put in a huge effort into producing our board packs and I seriously question if they read them properly, they are second guessing me and my executive team on a continuous basis, they haven’t a strategic bone in their bodies and to be quite honest, other than their watchdog oversight role, I seriously question if they add any value to me, my team and this company” – these were the opening words from a CEO in a board evaluation I was leading some time back and I have often heard these words from CEOs, across a wide range of sectors, scale of companies and maturity/experience level of CEOs.

I responded to this CEO to ask him to place himself in the shoes of one of his non-executive directors (NED) and think back over recent board meetings and over recent years of how this NED would have perceived the overall approach and engagement of the CEO and executive team towards him/her personally and the overall board – how open and engaging the CEO and exec team were towards the board, the level of genuine accountability and performance culture, the respect in terms of getting a big complex board pack out four or five working days ahead of the board meeting as opposed to 24 hours beforehand and expect the NEDs to drop everything to prepare properly and finally how much opportunity did the CEO provide to the NEDs to genuinely get involved in the formation of the company strategy. I also posed the question how proactive the CEO has been in recent years to work closely with the board chair to set the bar very high on the calibre, diversity and contribution of the NEDs and to ensure that the board was being appropriately refreshed to not only upskill the board for the new complexities and technology disruption in their market sector but also to ensure there was a vibrant outstanding group of NEDs genuinely partnering with the exec team and balancing outstanding challenge and debate with adding significant strategic value to the CEO, executive team and company.

The CEO responded very honestly that he had never really thought about the board in this way and that in the cold light of day stepping back he could see that he had been in a pattern of “managing the board” and really after many years had arrived at a point where he basically had no expectations of them. This is a sad indictment on this board and the real losers here are the shareholders and broader stakeholders such as employees and the reality is that the shareholders and stakeholders often in these cases do not even realise it. While there are a portion of CEOs that all of us have come across over the years who try to dominate their boards, have no real respect for their boards and simply “manage the board”, I believe the vast majority of CEOs are very conscientious, understand the value of a high-performing board but often struggle as to how do they as CEO and their executive team genuinely partner with their board and enable an outstanding combination of executive and non-executive board members to truly excel delivering outstanding value for their shareholders and stakeholders. **One of the reasons for this is that there is no section in the “Becoming a brilliant CEO manual” where CEOs in their early formative years can see the best practices for a CEO engaging with their board.** As a former CEO, I can testify to the fact that in the early stages, I was very cagy with the board, wanted to really concentrate on the good news, wanted to demonstrate that I had the strategy all figured out and slipped very easily into the pattern of “managing the board”. This is a very natural understandable starting point for many CEOs. I was blessed in my own case of having

an outstanding board chair who gave me a dose of salts early on and helped me understand the value of the board, my responsibilities as CEO and that to get the best from a board team, the CEO needed to genuinely open up, demonstrate the highest levels of respect and accountability to the board and in doing so would inspire the board to want to genuinely add serious value as well as discharge their oversight and stewardship responsibilities on behalf of the shareholders.

I have outlined a number of key areas in Diagram 1, an extract from our board best practices workshop, that I have found in supporting boards over the years represent best practices for a CEO and executive team in enabling high-performing board teams. These are now explored further below.

Board best practices for a CEO and executive team



Respect for and accountability to the board

It should go without saying that a CEO should respect the board but in reality, some CEOs are quite dis-respectful to their board, both in terms of the role of the board itself and the board members individually and collectively. In many cases, this can be an aggressive dominant CEO who doesn't try to hide this and merely tolerates the board. In other cases, it can be a lot more subtle and a CEO who "manages the board" but behind it all does not have the proper level of respect for the board and by extension the shareholders. Over the years some CEOs have said to me that they don't respect the board as they don't rate the calibre of individual board members. I always respond to this by saying that they are confusing two issues and that they need to respect the board properly and if they have significant concerns about the calibre, work ethic etc. of NEDs, they put the energy into working with the board chair to refresh and strengthen the board team.

Respect for the board is the key foundation stone for the CEO and executive team to demonstrate the highest levels of accountability to the board (and by extension the shareholders) for their performance and their overall leadership day to day of the organisation. When a CEO and exec team are genuinely accountable to the board, they enable the non-executive board members to discharge in a very effective manner their oversight responsibilities. *When the CEO and exec team's reporting is very accurate, honest, timely in terms of the board understanding the performance and progress of the organisation, what's not going well in addition to the good news, what's keeping the CEO up at night, key risks etc., it means the NEDs don't have to deep dive into the*



~~operational and financial minutiae, don't have to second guess the CEO and can devote a far bigger portion of the board's time to strategic discussions and adding serious value to the executive team.~~

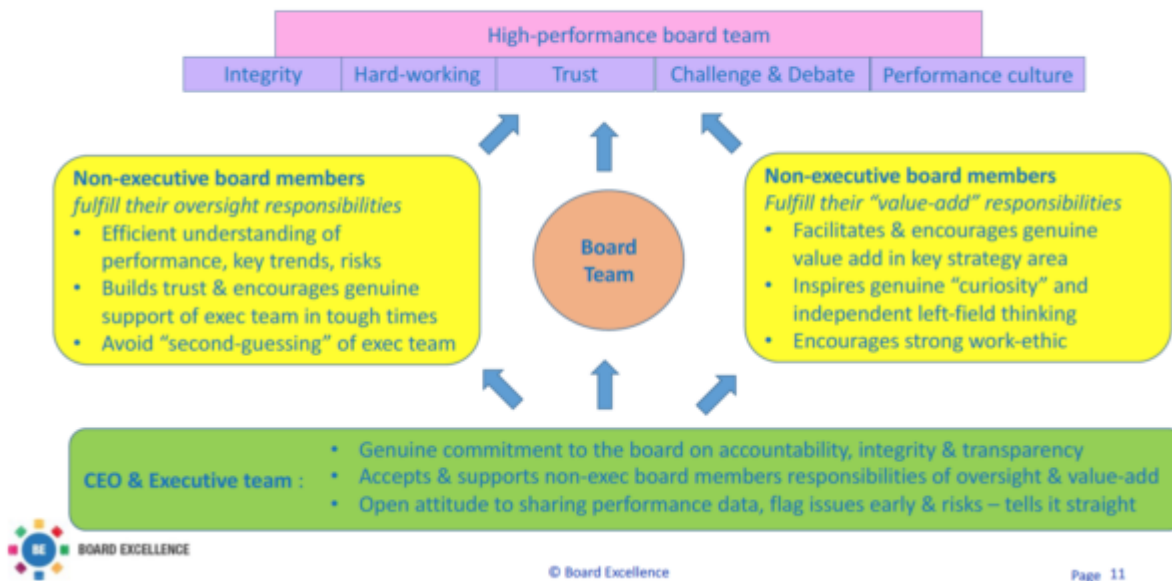
Performance culture – setting the bar high for execs and non-exec

Every time I see a high-calibre CEO at the top of their game in terms of engaging with the board, they not only set high expectations for themselves and the employees across the organisation but also set a very high bar for the board team itself in terms of the board's effectiveness and performance. Working closely with the board chair, a CEO is absolutely entitled to insist that the board is genuinely working very hard, is at the top of its game adding serious value to the exec team and the company, has regular evaluations (both internal and external) and is continually looking to add that extra 10% to the board's performance. As we will mention below, a strong CEO should not tolerate poor quality board members who are not pulling their weight and should work with the board chair to ensure that every single NED is continually justifying their continued presence on the board through the value of their contribution.

A partnership model between execs and non-exec – balancing oversight and value add embracing the highest levels of challenge and debate

At the core of outstanding board teams is a genuine partnership model between the executive and non-executive board members which balances a very strong level of oversight and significant value-add by the board. *The best board teams simply “get at it” and embrace the highest levels of robust challenge and debate in order to stretch the brain cells of the board team to understand complex issues, get to the bottom of performance problems, see around dark corners and ultimately make the very best decisions.* A progressive CEO will set the tone for this partnership and working closely with the board chair, will ensure that the executive team delivers their part of this partnership model. In return, the CEO and exec team are entitled to expect that the NEDs add genuine strategic value, bring diverse and independent thinking to the exec team and ultimately enhance the thinking and decision-making of the exec team. This partnership model is illustrated in Diagram 2.

Partnership between executive and non-executive board members



High quality information model and information flow to the board

A progressive CEO understands that the board are highly dependent on the quality and timeliness of the information provided to the board. During board evaluations, I regularly identify serious issues with the board information model which makes it very difficult for the NEDs on the board to understand the genuine critical issues that the board need to be focused on. *A common problem I see is a very dense board pack with reams of complex reports but very little or no quality guidance from the executive team on what's critical, the areas the NEDs need to focus on, the areas the executive team need help with and ultimately the concerning areas that are keeping the CEO and executive team up at night.* You combine this problem with the bad habits of sending board packs out late and you can understand why NEDs often feel they have to second guess the CEO, ask a lot of detailed questions at the board meeting which to be honest wouldn't be necessary if the right high quality information was provided to the NEDs in the first place on time.

Inspiring diverse high-calibre NEDs to bring their independence and A-game (and replacing them if they are not !)

If you read any of the memoirs of highly successful CEOs and entrepreneurs, you will often see the following phrase positioned prominently in the early chapters : " I made a very conscious decision to surround myself in my executive team with people who were a lot smarter than me". *I often come across CEOs who are very sharp but yet inexplicably are quite happy to surround themselves on the board with mediocre NEDs who simply do not add any value to the board.* While this is clearly a failure on the board chair's watch, the CEO in many companies has quite a key role in selecting board



members. When it comes to progressive CEOs, I find that they look well beyond their own network to find genuinely high-calibre NEDs who have the intellectual firepower, the sector expertise, confidence and judgement to go toe-to-toe with the CEO to enable high-quality challenge and debate which adds serious value to the executive team in the strategic areas as well as key decisions in operations and all areas. Progressive CEOs also see the critical value of diversity in their NEDs across age, gender, ethnic background, sector and most importantly thinking style. Many board teams today lack any serious depth of expertise in technology, cyber-security as well as being very poorly equipped to understand significantly changing attitudes in their customers. **When it comes to NEDs, a CEO and executive team who are partnering extremely well with the board are perfectly entitled to expect each NED to bring their A-game consistently to the board underpinned by a strong work ethic and genuine commitment to the company.** Where NEDs are not doing this, a CEO should work with the board chair to replace those NEDs with NEDs who will perform and deliver serious value – shareholders absolutely deserve nothing less.

Partnering with the board on strategy

One of the biggest changes in recent years with how CEOs engage with their boards is in the whole area of strategy. High-performing board teams have increasingly moved away from the traditional model of the CEO coming into the boardroom with the company strategy 90% cooked in the oven looking for the board to effectively rubber-stamp the strategy and allow the executive team to get on with it. Apart from the fact that this legacy approach is very dis-empowering to the NEDs around the table and can lead to very serious flawed strategies and group-think problems, CEOs are increasingly realising that making big strategy calls in today's marketplace is a lot tougher than five or ten years ago. *Best practice now is where the CEO and executive team develop a range of strategic options that they bring at an early stage to the board team and enable every single NED to be involved.* Key advantages of this approach are that in addition to enabling high-quality challenge and debate around the strategic options identified by the CEO and executive team, it enables the NEDs to put other options on the table the executive team may not have considered or combinations and variations on the executive team options that could ultimately result in a stronger strategy being adopted.

Crisis management and asking for help

Most companies at some stage or another have to deal with a serious crisis (either self-inflicted or outside of their control) – this could be a significant change in the competitive landscape (business model, pricing, innovation), technology disruption, serious quality problems in their products/services, losing their way on sales performance, financial problems, a serious cyber-attack or a business-impacting loss of critical staff in the company. *No matter how strong and battle-hardened a CEO and executive team are, it can be very difficult in the eye of a storm to get an objective perspective on not only root causes but the optimum way for the company to navigate through the stormy waters. This is where a CEO in an outstanding board team can turn to their NEDs who will roll up the sleeves, get stuck in to provide high-quality help to the executive team and most importantly provide a cold independent perspective and help with grasping the nettle on some very tough decisions.* Critical in this situation is the high level of goodwill, respect and trust that the CEO and executive team have built up with the board over the years and even though the NEDs may realise that the crisis could be actually self-inflicted due to a bad judgement call or poor performance by the executive team, a strong board



~~will first and foremost prioritise what's important for the company and deal with performance issues later.~~

Setting the example in terms of culture, ethics and behaviours

We are in a new era where the spotlight on the behaviours, ethics and culture being demonstrated by a company CEO has never been greater. While this is particularly pronounced in publicly-listed companies, the shareholders, employees and broader stakeholders in every company are far more sensitive to their CEO and executive team's behaviours and ethics due to the significant media exposure on boardrooms and corporate scandals. The genie is definitely out of the bottle and the days of some CEOs feeling that it is perfectly acceptable to demonstrate dis-respectful bullying, aggressive and passive-aggressive behaviours to their board, their employees and shareholders/stakeholders are coming to an end. This is simply not acceptable in today's world and should not be accepted by any board. *Any board worth its salts should be setting the bar very high in terms of the example they are setting as a team in terms of culture and "tone at the top" as well as setting the highest of standards for the CEO and executive team.* A key best practice I recommend to CEOs is that they proactively provide the board with comprehensive insights into how the company is performing in terms of how is the desired organisational culture of the board being practiced day to day across the organisation (e.g. utilising data such as turnover and absenteeism rates, training data, recruitment, reward and promotion decisions, use of non-disclosure agreements, whistleblowing, grievance and "speak-up" data, employee surveys, board interaction with senior management and workforce, health and safety data (including near misses), customer satisfaction data, promptness of payments to suppliers, attitudes to regulators, internal audit and employees, exit interviews ...). Where a CEO and executive team genuinely set an outstanding example in an organisation in terms of their behaviours, ethics and commitment to simply do the right thing, employees, shareholders, customers and suppliers react extremely well to this and I strongly believe this can impact very positively on company performance.

Summary

Along with the impact of the board chair's leadership, the impact of the CEO and executive team's whole approach to the board has a fundamental impact on the effectiveness and performance of a board team. As an observer at board meetings in external board evaluations and watching the chemistry of board teams during board best practice workshops, I am always moved by the powerful impact it has on the board where you get a CEO and executive team genuinely partnering with the non-executive directors in a very respectful and accountable way, demonstrating the highest levels of behaviours, ethics and integrity, providing high-quality information flow to the NEDs, partnering with the NEDs on strategy, inspiring the NEDs to go the extra mile in terms of their own commitment and work ethic and ultimately integrating with the NEDs in a cohesive outstanding board team with a deep commitment to excel on behalf of their shareholders, employees and stakeholders.

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