Toward A More Meaningful Balance – Boards And CEOs Seek To Find Their Sweet Spot

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The Board’s role vis-à-vis the CEO has always been somewhat sensitive. In our experience, the way the relationship is handled is a function of many factors. While all board members and CEOs would certainly see the board as the overseer of the CEO, and CEOs understand they work at the pleasure of the board, it is in some ways a “non-discussable” and often complicated relationship. Even when the CEO has a strong working relationship with the board, it is difficult for many board members to be candid; providing good feedback and counsel is not necessarily what they do best and certainly not what many are comfortable doing.

This issue is further complicated by the frequent scenario of board members who are former CEOs themselves, which may make them a bit more forgiving and accepting of the CEO’s performance as they have a greater appreciation of the context within which the CEO operates. Or, it can temper in other ways their view of the CEO – “when I was in that role I saw things differently.”

In a similar vein, it is not uncommon for board members to avoid upsetting the relationship in any way, and to treat the CEO more cautiously than may be is warranted. It is certainly understandable that boards must provide the appropriate level of latitude, authority and freedom to act on an agreed-upon direction and strategy, but that does not imply that sound behavioral feedback is not needed or warranted.

Some boards have even swung the other way in the post Sarbanes–Oxley era. While these boards certainly cannot be faulted for their vigilance, as they are under much tighter scrutiny themselves, many have failed to find the right balance and unwittingly fall into a micromanagement mentality.

So just what is the right balance? Where is the sweet spot for boards and CEOs to operate in the best interest of the enterprise? We believe three elements are of utmost importance.
1. **An open and honest relationship.** The board chair or lead director in particular must have a solid relationship with the CEO and the ability to put difficult issues on the table. They must be able to speak candidly with each other, share perspective, seek advice and provide feedback. This is especially important in times of business and/or organizational stress or turbulence when a solid foundation for this relationship is a prerequisite for taking on the tough topics successfully.

2. **Trust.** The board must trust the CEO – trust in the CEO’s integrity, judgment, and ability to see and understand the eco-system of the business and implications on the enterprise. Likewise, the CEO must trust that members of the board are trustworthy in these areas as well. This trust can help avoid the tendency to micromanage. Conversely, when we see micromanagement, it is usually a sign that full trust is not there.

3. **Respect.** The board and CEO must have a respectful relationship, which of course is built on trust, though one can be present without the other. Mutual respect enables greater listening and more reflection and leads to greater flexibility to accept new ideas or ways of doing things; in a relationship based on respect both sides will seek to advance the thinking for the good of the enterprise.

In an open, trusting and respectful relationship, it should be relatively easy, for example, or at least natural, to provide on-going, candid and mixed feedback to the CEO. Yet while many boards say and believe that all three elements apply to their CEO relationship, many board leaders we speak with have difficulty holding such conversations.

Similarly, board members may believe they trust and respect their CEO’s decisions, yet these boards may take on decisions that are best left to their CEOs – such as restructures or decisions about management team members. In such cases actions truly speak louder than words in terms of respect for and trust in the CEO’s role in making calls about the enterprise.

A validity check can uncover gaps between relationship perception and reality. Finding the sweet spot is a process and a journey the board and CEO must take together. It’s important to get it right, but at the same time, both sides usually agree that it’s difficult to achieve. Boards and CEOs that have achieved this sweet spot have worked hard at the three factors of openness, trust and respect. And, if your board and CEO cannot mutually get there, it may be time to ask why.