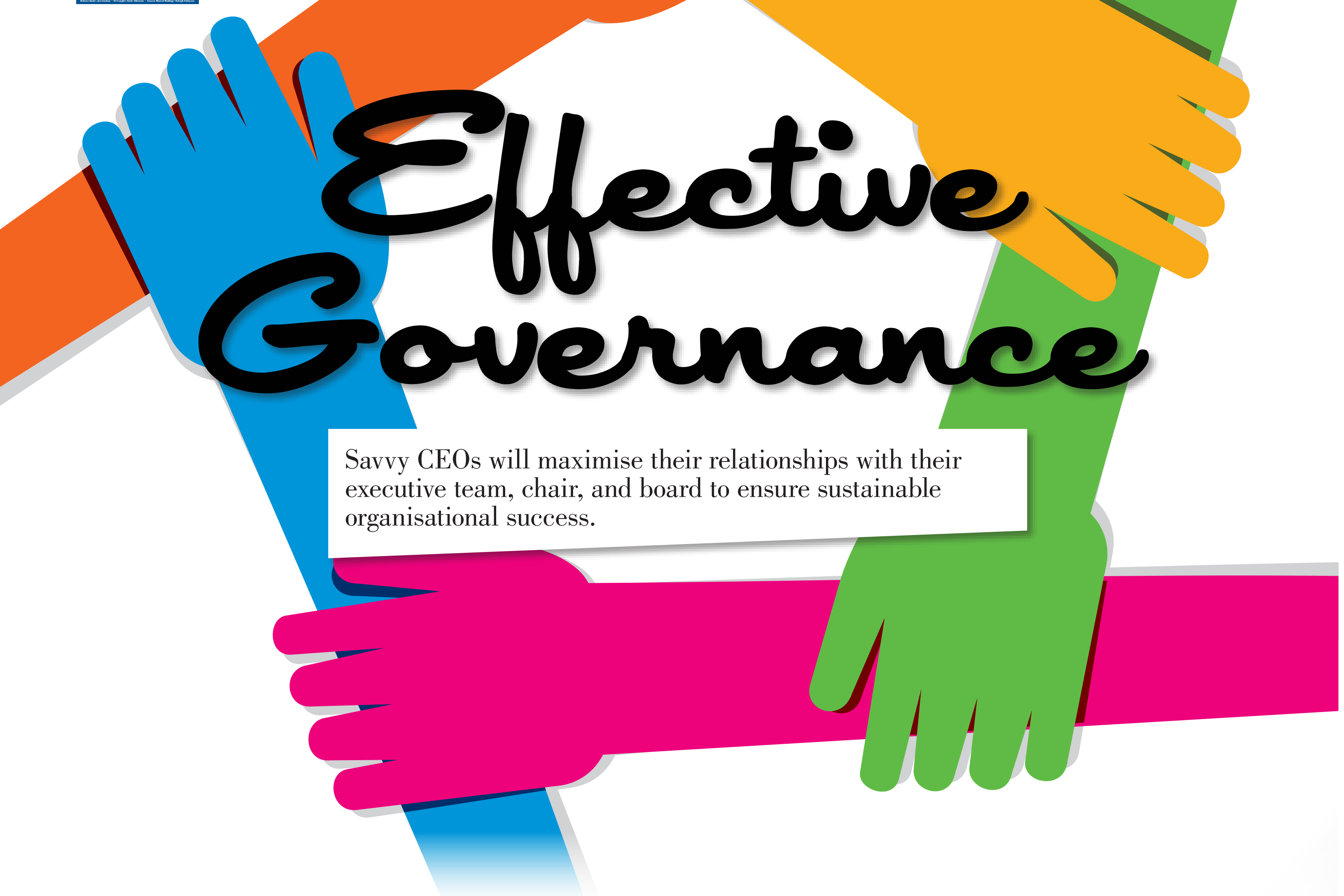

As featured in
*The CEO Magazine*
For more info visit
**theceomagazine.com.au**

By Garth Paton

# Effective Governance

Savvy CEOs will maximise their relationships with their executive team, chair, and board to ensure sustainable organisational success.

In any organisational setting, relationships are critical. However, for an organisation where the governance structure includes a board, it becomes particularly challenging for the CEO. For sustained organisational success, it is essential that the relationships between the CEO, the executive team, the chair, and the board are of a high quality. So how does the CEO ensure relationships are strong and professional?

There are a number of factors that position the board and management for successful relationships.

> For sustained organisational success, it is essential that the relationships between the CEO, the executive team, the chair, and the board are of a high quality.

## Role clarity

- Each party must have a clear understanding of their role through documented position descriptions and a board charter.
- It is strongly recommended that position descriptions for directors and the chair be included as part of the board charter.

## Clear lines of delegation

- The CEO and the executive team must have sufficient delegations from the board to enable the strategic direction to be operationalised.
- If the board has not delegated sufficiently, the CEO will be required to seek further authority from the board, which has the potential to hinder progress.
- A board that does not sufficiently delegate is a board that is too operational. A board performance review, discussed below, can be used to provide feedback to the board. However, a CEO who has a good working relationship with the chair ought to discuss any concerns regarding delegations with the chair first.

## Performance review

- Ensure that a CEO performance review process is undertaken regularly.
- Boards who take the time to reflect on their own performance and how they can do things differently demonstrate that they are serious about continuous improvement that leads to sustained organisational success.
- Furthermore, boards that use external facilitators for their performance reviews demonstrate greater transparency, leadership, and accountability within the organisation.

## Clarity of strategic direction

- Alignment between the board, the CEO, and the executive team on the strategic direction is an essential element of success.
- There are numerous instances we can all think of where the board and the CEO were not aligned on the strategy. One example that grabbed the media's attention involved the resignation of BHP Billiton's CEO, Brian Gilbertson, in 2003, only 18 months into a four-year contract. This followed a dispute with the board over the company's strategic direction. The CEO rarely maintains their position when such differences occur.
- It is critical for the board, the CEO, and the executive team to have regular discussions on strategy—not just an annual strategic retreat, but at each meeting. These discussions might be about changes in the external and internal environment, progress against the strategic objectives, or risk minimisation.
- The board meeting agenda structure is important as a guide to strategic discussions. For a sample strategic board meeting agenda, refer to *effectivegovernance.com.au/resources*.

However, we believe that the informal aspects of the board–management relationship are even more critical in ensuring enduring successful relationships.

## Team leadership

The CEO is responsible for ensuring the operational effectiveness of the organisation and the executive team. In doing so, the CEO must work with the executive team to address any points of concern or, failing to resolve them, must raise them with the board.

To be effective, the CEO must have an open and honest relationship with the chair so that matters of concern are brought to the board in a timely manner.

The chair is responsible for leading an effective board by ensuring the board:

- is focused on the right matters at the right time
- analyses and addresses matters in a comprehensive manner
- has made decisions that can be implemented
- monitors actions arising from its decisions.

Failure of a board or failure of an executive team falls at the feet of the chair or the CEO respectively.

## Role of the CEO as champion

The CEO has the unique responsibility of championing the interests of two bodies within an organisation—the executive and the board. If the executive is unhappy with the board, it is the responsibility of the CEO to raise this with the board through the chair. Likewise, if the board has concerns or opinions regarding how the organisation is operating, then it must communicate these to the CEO, whose responsibility it is to relay them to the executive team.

Central to the performance of this role is the CEO's understanding of the position of each group so they can ensure that the concerns or opinions of one group are appropriately communicated to the other. Failure to properly represent these positions often leads to a culture of blame developing within the organisation—a significant impediment to organisational success.

## Behavioural expectations between CEO and chair

For the relationship between the board and the executive to be successful, the chair and the CEO must have a good working relationship. The foundation of a good relationship is to agree to the behavioural expectations of each other early in the relationship and in a way that can be measured. This is becoming a more common practice with the boards we have been working with and a trend which we would encourage.

It should be noted, however, that the CEO's ability to influence the board–management relationship will be significantly compromised if the board has poor behavioural dynamics. For more information about behavioural dynamics, see Geoffrey Kiel, Gavin Nicholson, Jennifer Ann Tunny, and James Beck's book *Directors at Work*, published by Thomson Reuters.

In summary, for a successful board–management relationship, clear roles, goals, and performance expectations are fundamental, but the leadership and behavioural expectations between the chair and the CEO are even more critical for enduring success.

> Alignment between the board, the CEO, and the executive team on the strategic direction is an essential element of success.

**About Garth Paton**
Garth Paton is a principal adviser with Australia's leading corporate governance firm Effective Governance. Garth is a lawyer, former managing director, and management consultant with more than 20 years experience.