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THE INSTITUTE OF GOVERNANCE



GUIDE TO

Relationship building – how to strengthen the way directors work together and with the executive management

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Setting the Scene

A productive relationship between the board and management is critical for good governance and organisational effectiveness.

This calls for a shared view and common determination based on trust and respect that is earned rather than demanded.

Central to this relationship is clarity and mutual understanding around roles, responsibilities, defined boundaries of authority, and performance expectations. It is, if nothing else, about teamwork and managing expectations without obfuscation or ambiguity.

The board does not want any surprises from management and, equally, management does not want any surprises from the board. Key to this is an open and transparent relationship between the board and management through effective, timely communication.

As obvious as all this might appear, putting it into practice can prove to be less simple than it would first seem.

This working guide attempts to offer some practical guidelines around how this may be achieved but in no ways is this an exhaustive list of suggested good practices as much depends on the character of the board and the characters serving on the board. It is important to note that this guide only deals with the circumstances where the Board Chair is separate from that of the CEO, recognising that sometimes the two roles are combined.[1]

It should also be added, that this guidance can be applied not only to companies listed on the stock exchange but also adapted to private companies, family-owned businesses[2] and State-owned enterprises[3], etc.

[1] In circumstances where the roles are combined, this will require other considerations that may or may not be present in such circumstances e.g. appointment of a senior independent director and thus requires several modifications to what is specifically covered in this guide

[2] Recognising that family-owned businesses do bring with them certain specificities that need to be accommodated but the general principles set out in this guide can be usefully adapted accordingly

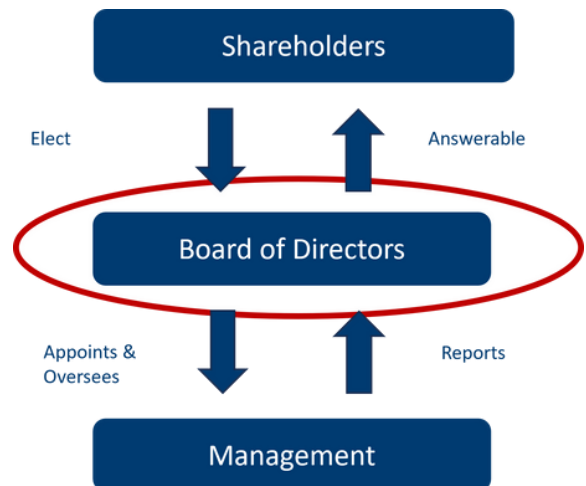
[3] State-owned enterprises (SOE) can be wholly owned by the State, or partly owned with the State holding a controlling interest or “golden share” on key strategic decisions, therefore while the principles generally set out in this guide can usefully guide relationships there are other complexities that require more consideration in what can be a complex operating environment for boards of SOEs

There requires to be a mutual dependency that ensures a common or shared purpose and effective organisational performance. Much of this is driven by the key actors: Board Chair, CEO and their interaction with the board and not forgetting the Committee Chairs and the particular role of the company secretary.

The functional and sometimes strategic role a professionally competent company secretary can play in the effectiveness of a board and its relations with management should not be underestimated and will be highlighted throughout this guide. An experienced company secretary, trusted by the Board Chair and CEO, oftentimes can be a useful interlocutor between the two; especially as the company secretary will often have insights gained from discussions with the Board Chair and CEO separately that can helpfully (and tactfully) contextualise their individual positions on an issue under discussion between the two.

Role of the Board Chair

Key to effective boards is an effective Board Chair who displays appropriate influence, constructive guidance and embodies integrity while fostering a valued, respectful and trusted relationship with the CEO.



It can be said that the Board Chair serves as much as a mentor and partner to the CEO and seeks to crystallise his/her fellow directors' diverse views, considerations, underlying concerns ensuring focused deliberations.

Generally, the Board Chair's relationship with the CEO is the primary medium through which the board engages with the CEO and management – both at the board meeting and between board meetings.

How this is accomplished depends very much on several factors, and there is no common template that will determine the Board Chair's effectiveness.

However, there are some factors that inter alia contribute to this:

Critical Components to Consider

Board directors should listen to management with a measure of courtesy and respect offering constructive challenge and allowing management to make its contribution with confidence and without undue interference, constraint and with clarity of viewpoint.

It is equally important that the CEO of the company seeks to establish the right working relationship with the board and seeks to leverage the board as a valued resource ensuring the board is kept well informed sufficient for it to provide constructive input to management deliberations on the business strategy, operations, risk and performance.

Responsibilities and expectations of the board include (without limitation):

- being well prepared for board meetings
- making well informed and thoughtful business decisions
- focusing on and giving priority to strategic issues relevant to the business while giving attention to matters of compliance and routine
- willingly sharing their expertise, experience and knowledge
- overseeing management through the CEO and holding management suitably accountable
- satisfying itself of the competence, capabilities and professional skills of the management team
- building productive relationships with key stakeholders relevant to the business

Responsibilities of management to ensure that the board is capable of effective decision making include (without limitation):

- reporting relevant material information on a timely basis to the board
- assisting the board in analysing information critical to key decisions being requested of the board
- responding constructively to issues raised by the board and ensuring timely and effective follow up on actions requested by the board
- engaging the board in emerging issues that may confront management, and therefore, the board

Relationship with the Board

- The Board Chair is likely to have some role in the selection of new directors and he/she would be keen to ascertain their "fit"^[4] with the board both in terms of personality and skills, as well as competencies and experiences that they will bring to the board
- On appointment of a new director, the Board Chair will be instrumental in the induction of the new director in terms of expectations, role clarity particularly where they may also be serving on a board committee, any director education requirements including familiarisation with the company's operations and strategy, introductions to fellow directors, CEO and management, key stakeholders to ensure that the new director is well prepared to contribute from their first board meeting. The company secretary will usually play an integral role in supporting the Board Chair throughout this process
- More generally, the Board Chair will from time to time meet individually with each of the directors on the board to ascertain their thoughts, concerns, reflections on key issues facing the board and/or industry/market in which the company operates and to better understand the individual and discuss any performance issues. This develops a sense of camaraderie that engenders trust and participation in board dialogue
- The Board Chair will engage the board in agenda setting ahead of a board meeting with the active engagement of the company secretary
- The Board Chair would typically hold periodic meetings between board meetings with the Committee Chairs individually, and collectively, to ensure co-ordination of the work of the board and its committees. And, identify any issues for the board agenda and given the company secretary's role in supporting the board's committees they will often have a perspective in the agenda setting process and prioritisation
- Immediately ahead of the board meeting, the Board Chair might meet with the board without the CEO present to ascertain if there are any burning

[4] "Fit" should not be misinterpreted in this instance. The Board Chair's interest will be to ensure that the personality of the new director will accommodate personalities already serving on the board and also to ensure that this individual will bring to the board a diversity of experiences and knowledge that will enhance the board's effectiveness, sometimes to fill an obvious gap in the board's own competencies

issues ahead of the board meeting. The feedback loop with the CEO is dealt with more fully later on in this guide.

- During the board meeting, the Board Chair should facilitate an objective deliberation of matters on the board agenda and ensure that all directors are heard while giving space to the CEO[5]
- An effective Board Chair would encourage a dialogue at board meetings, ensuring that it is not inappropriately dominated by the views of any one or more individuals. This would require the directors to respectfully listen to the CEO allowing him/her to make their contribution with confidence and without constraint to be sure that the reasonable expectations of both the board and management are satisfied
- The Board Chair's critical role throughout is to be sure that the board demonstrates the same standards and rigour it demands of management while stimulating innovative and creative dialogue and preferably devote time to forward looking issues not necessarily using the time to look retrospectively
- Between board meetings, the Board Chair should ensure that critical information and any important developments are shared with the board (and not wait for them to learn about these issues at the next meeting). This sometimes also would include a summary dashboard of key performance indicators usually circulated by the CEO periodically. The company secretary should be alert to any such circumstances given their interlocutory function with both the Board Chair and CEO
- Evaluations of the board, and sometimes individual directors, will be initiated and led by the Board Chair as well as any follow up actions that may come out of the process including the need to refresh the board with the support of the company secretary
- Board Chair and CEO succession planning would also be facilitated by the Board Chair in consultation with the board[6]

[5] While reference is routinely made to the CEO, members of his/her management team may also be present in board meetings to provide executive insights into areas falling under their responsibility, as would be the case for Board Committee meetings. This is an important part of the relationship building between board and management as it gives directors insight into the competencies and qualities of the CEO's management, and possible indications for CEO succession

[6] This would usually be initiated through a dedicated Board Committee, in which the Board Chair if not involved directly would still offer his/her insights and perspectives towards the deliberations while the final decision would usually be a matter for the board as a whole

- A useful addition is to ensure that there is a formalised protocol regulating communication between the board and management (usually via the Board Chair) and the board with outside stakeholders (usually via the CEO with Board Chair input) for which the company secretary would usually be required to advise and ensure adherence
- Another area for consideration is the board's involvement in strategy setting and the discussions which usually take place outside a formal board meeting, usually in an offsite location where the board and the CEO and their management team will engage in open and constructive dialogue.[7] This not only builds camaraderie among the board and management writ large but is an opportunity for the board (indirectly) to evaluate the competencies and qualities of management

Relationship with the CEO

- The relationship between the Board Chair and CEO should be built on candour and transparency to engender the necessary trust and confidence between them. It is a relationship built on mutual dependency and constructive dialogue
- The relationship requires frankness in private and mutual support in public
- The Board Chair and CEO should speak to each other routinely on a regular basis, often once a week while not feeling inhibited about calling (or meeting) one another on an urgent issue as needs require
- If it is warranted the Board Chair may communicate some of their discussions with the board, where appropriate and with the knowledge of the CEO, or even request the CEO to communicate directly with the board to ensure it remains suitably informed between meetings on significant issues
- This will often shape topics for the next board agenda, or call for an ad hoc board meeting between the routinely scheduled meetings if the situation is warranted

[7] It should be emphasised that the board's role is not to set strategy but operatively will share their insights, knowledge and expertise in raising issues or considerations that management may want to consider in finalising the proposed strategy presented to the board in this forum ahead of its presentation for formal approval in a scheduled board meeting. The essential purpose of this forum is to allow the board an insight into management's thinking and considerations that also helps inform the board while obtaining the benefit of individual director's insights and perspectives. It usefully contributes to building a shared purpose between the board and management and is often revealing in terms of management competencies and leadership qualities that may inform CEO succession planning

- It also allows the CEO a safe space to discuss contentious issues with the Board Chair before exposing them to the board, as might become necessary in due course. Therefore, key to all this is the confidentiality shared between the Board Chair and CEO and the accompanying trust and respect this should engender
- Much of the role of the CEO, in conjunction with the Board Chair, around agenda setting and board meetings is covered in the preceding section
- An area that generates particular sensitivity is the question of so-called “executive sessions” which the Board Chair may hold with the board without the CEO present. This needs to be sensitively handled by the Board Chair. What is essential is how the feedback loop between the Board Chair and CEO is handled and a company secretary functioning as a trusted advisor to both Board Chair and CEO can be expected to play an important interlocutory role in this delicate process
- Boards find these sessions useful as it allows directors to ventilate issues or concerns without generating any sensitivities with the CEO and/or their management team if present. If used properly, it can be hugely constructive and benefit all parties involved
- There are a number of ways in which this can be handled but generally when the Board Chair meets with his/her board immediately prior to the board meeting, the CEO might be invited to join the discussion at some point where the Board Chair would sensitively articulate any issues raised at the executive session of which the CEO should be made aware and even allow him/her the right to respond/explain/discuss
- Another might be the increasingly common practice where the board holds an executive session right after a board meeting has concluded to evaluate reflections on the meeting just completed and to discuss any concerns that directors would prefer to share with the Board Chair, without the CEO present. Again, the CEO may be invited to join the discussion at the end of this session and for the Board Chair to share some of that discussion (suitably filtered) with the CEO who might be offered an opportunity to reflect on his/her response
- If the relationship between the Board Chair and the CEO is strong, then the Board Chair might leave this until the next day giving him/her some time to reflect on the discussion and then meet privately (this should be in person) with the CEO to discuss. Often this allows the situation to

decompress overnight both to the benefit of the Board Chair and CEO, especially where a weighty matter has come to light. What is critical, is that the feedback is not delayed

- Regardless of the approach, the Board Chair needs to instil confidence and trust that board's private views are being heard and considered while the CEO and their management team hold the view that no discussions are taking place to their intentional exclusion. However the feedback, as already emphasised, should not only be timely but constructive, honest and consistent, and handled with a degree of sensitivity
- This process is also usefully deployed in the circumstances where the CEO's performance is being evaluated
- This is a short summation of the many facets of what can be a complex relationship and very much dependent on the chemistry between the Board Chair and CEO. It by no means covers many other dimensions but seeks only to cover some principal aspects of this important relationship
- An experienced company secretary, trusted by the Board Chair and CEO, oftentimes can be a useful interlocutor between the two; especially when seeking to tactfully share the context in which Board Chair and CEO may need to appreciate the reasoning behind their individual positions on an issue

Role of the CEO

- Much has been covered around the role of the CEO's relationship with the Board Chair and the board in the preceding sections of this guide
- Probably the most important beyond what has already been covered, is that the CEO has an equal role (to that of the Board Chair) in driving the right relationship with the board and to ensure that there is common cause with his/her management team around this. An experienced company secretary can prove to be a useful counsellor to the CEO and management in such circumstances given their own observations from interactions with the Board Chair and directors
- Material to all this, is the CEO's willingness to ensure that the board is fed with the necessary information for it to make informed and well considered decisions, and to do this on a timely basis ensuring that the information is relevant to the needs of the board. This should not be prompted but proactively pursued by the CEO

This would often include arranging presentations to the board by outside experts and analysts to keep the board well informed about industry developments, new technologies, investor views on performance and comparisons with industry peers, among other things. This would serve to ensure the board is reasonably familiarised with important issues critical to the business to be sure that the board possesses sufficient knowledge and understanding around important decisions being requested of the board.

After all, it is a partnership and being sure that the board is a valued resource to management (and not an impediment to be tolerated).

Typically, just a few considerations the CEO might seek the counsel of the board for consideration in finding common cause and purpose might be:

- Any focus on long-term value would be to clarify and agree what that stands for and how it is to be created?
- Having determined that, how will the company measure success?
- What are appropriate performance indicators, both short and longer term?
- How does compensation incentives align to the desired outcomes and key indicators?
- How often should the agreed strategy be measured against progress, and how should the board agenda and annual board work plan suitably align so dedicated time is given to probably the most important consideration the board will undertake?
- What determinations should be given to the key stakeholders and how should the approach be designed to each, what role should the Board Chair and/or CEO play in engaging them and what process should be formalised to take care that this is managed effectively? In addition, how should the feedback loop to the board be conducted?

Another facet relates to the culture of the company which is often determined by the CEO and management team, in consultation with the Board Chair and the board. Remembering that behaviour often speaks louder than words.

Role of the Board

The board should hold itself to the same high standards it sets for management, both in principle and in practice.

The board should be clear on its information requirements from management through the CEO, often articulated via the Board Chair, while developing a respectful relationship where management accepts that the board's role is to monitor and question, probe issues, seek clarification, offer insight and share its knowledge and experience. This should be conducted in a spirit of constructive engagement and open-minded dialogue with mutually assured and shared objectives.

The board should demonstrate a constructive curiosity and ensure that it is well informed sufficient to provide wise and thoughtful guidance in support of management. This is in addition to those issues already highlighted in setting the scene.

This would require, among other things:

- test validity of assumptions made
- stress test opportunities and any risk analysis
- test depth and breadth of management's knowledge and understanding of issues presented to the board for decision
- stimulate innovative and creative thought and be forward looking as previously emphasised

The board would not generally engage directly with management outside of board and committee meetings, without some established communications protocol in place or only after consultation with the Board Chair and CEO regarding the validity and necessity for such an engagement. This would often be done with the guidance of an experienced and professionally competent company secretary.

Board directors have a responsibility to keep themselves well informed on the business, its operations, the industry in which it operates, industry peers, technological developments, events in the markets that may have consequences for the company, etc. This would also assure management of the board's commitment and value.

An often-overlooked issue is that the board has to work well with each other, as a team, as much as working well with the Board Chair and CEO. It is a mutually reinforcing process.

Board relationships with the Board Chair and CEO have been more fully covered in the preceding sections.

Do's and Don'ts

Do...	Don't...
Maintain open, honest, and timely communication between the board and management	Allow surprises; ensure open and consistent communication to keep the board and management aligned
Foster respect and trust through integrity, candor, and transparency	Overlook the importance of regular reviews and assessments
Clearly define the expectations and performance metrics for both the board and management	Ignore feedback from employees and key stakeholders
Directors should listen to management, allowing them to contribute with confidence	Let personal biases influence business decisions
Engage the board in strategic discussions, leveraging their expertise	Focus solely on short-term goals; balance them with long-term vision and strategy
Ensure the board has relevant material to make informed decisions	Disregard the need for structured meeting agendas
Board Chair and CEO should have a strong partnership, with regular discussions to align on goals	Overlook the necessity of well-documented minutes
Initiate periodic evaluations of the board and CEO's performance to identify areas for improvement	Let meetings drift off-topic—keep discussions focused

Concluding Reflection

This guide seeks to tease out some practical areas that should enhance the relationships between the Board Chair, CEO, board and its committees but as with any company it will need to be tailored to its particular circumstances and requirements with the support and advice of the company secretary