



Under pressure: Maintaining a strong board/CEO relationship

Chair/independent Chair insights

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As many boardroom leaders know from experience, achieving that “healthy tension” in the boardroom – where the board is a resource to the CEO and management team while maintaining objectivity, independence, and skepticism – is not easy. It is also clear that striking that critical balance will only become more challenging and more important given the mounting complexity of the business environment and the tremendous pressure on boards and CEOs to deliver results.

Rapid technological change and business model disruption, COVID-19 and threat of a deep recession, geopolitical uncertainty, and investor demands to hold CEOs and boards more accountable for performance all place possible strains on the board/CEO relationship. As the authors of “The CEO Life Cycle” note, this intensifying external pressure “raises the odds of adversarial dynamics between CEOs and directors, leaving many CEOs feeling unsupported and misunderstood.”¹

As our interviews made clear, the pressures on the CEO and board are likely to intensify – particularly with COVID-19 and a recession complicating an already challenging business environment – making a healthy relationship between the board and CEO even more important. Emphasising the importance of working with the CEO and the board to develop and maintain a healthy board/CEO relationship, the Chairs we spoke with collectively highlighted key areas of focus Chairs in their efforts to foster such a relationship:

- Insist on candour and transparency, which are key to building a culture of trust and confidence.
- Set clear expectations that the board’s role extends beyond compliance and monitoring, and includes ongoing engagement in strategy, exposure to the organisation’s talent, and serving as a resource for the CEO and management.
- Ensure that the CEO and board agree on how the firm will be run.
- Assess whether the board’s composition and culture enable it to serve as a resource for the CEO and management.
- Insist that the CEO take the lead in driving the right relationship with the board.
- Consider how the Chair, as the point person for the independent directors, can facilitate a healthy board/CEO relationship.

What are the hallmarks of a healthy board/CEO relationship?

The Chairs we interviewed – many of whom are former CEOs – emphasised the following as indicators of a healthy relationship between the board and the CEO/management team:

- Candour and dealing with the facts – a culture of trust and confidence among the board and CEO and management team;
- Regular communications between the CEO and board (e.g. at least monthly letters from the CEO) and between the CEO and the Chair (e.g. at least monthly phone calls/meetings);
- Board exposure to talent below the senior management to understand management’s capabilities and identify future leaders;
- Free flow of information between the CEO/senior management and the Chair, and between senior management and their respective committee Chairs;
- Good boardroom dynamics, as well as director confidence in the Chair and committee Chairs that the collective views of the board are being heard and considered;
- A healthy relationship between the Chair and the CEO – where both want the same thing, for the company to be successful – and both recognise that “this is business” and consider the optics.

¹ James M. Citrin, Claudius A. Hildebrand, and Robert J. Stark, “The CEO Life Cycle,” *Harvard Business Review*, November – December 2019.

Insist on candour and transparency, which are key to building a culture of trust and confidence between the board and the management team.

The starting point for an effective and high-value CEO-board relationship is full, open, transparent communications – both ways.”



The CEO sets the tone for management’s engagement with the board and committee leaders, and the board’s expectation is that “there will be **no surprises from management.**”

At the same time, management should expect **no surprises from the board.** To help ensure open and productive discussions, the Chair should draw out any concerns directors might have and communicate those issues to management before the board meeting. That gives management an opportunity to address the issue in an informed way, without feeling that a director is trying to be a “sharpshooter”.

“A good litmus test for trust and candour is whether the CEO and management team are comfortable **bringing a work in progress into the boardroom.** If management and the CEO can trust the board enough to share a work in progress, they are asking for the board’s input – not just an up or down vote.” The Chair can also play a key role here as an initial sounding board.

As one Chair suggested, “Have management bring in a plan that is about 80 percent done and make available the critical assumptions driving the plan, and why they picked the path they did and why they abandoned other paths. That can help directors bring their own thinking to bear and gauge how the plan connects to the macro environment and to competitive trends. The board can also understand the differing positions that members of management had on the subject and know that management had a vigorous debate.”

“**Behaviour speaks louder than words.** If you say there is an open and transparent relationship, respect it when they bring you bad news. If you find someone is hiding bad news, call them out on it.”

“Be vocal about receiving constructive feedback and **being open to improving as a director.** And if a fellow director engages in negative behaviour, take it up with that director one-on-one. You cannot let it pass.”

The starting point for an effective and high-value CEO-board relationship is full, open, transparent communications.

Set clear expectations that the board's role extends beyond compliance and monitoring and includes ongoing engagement in strategy, exposure to the organisation's talent, and serving as a resource for the CEO and management.

The emphasis today on the board's fiduciary and compliance responsibilities often overshadows its responsibility to serve as a strategic resource to the CEO and senior management team in creating long-term value.

Strategy

- “The **real value of a board is to help the CEO meet the company's objectives.**” Directors who have a solid understanding of the business and relevant business or professional experience can provide valuable guidance and counsel – if a conduit exists for them to actually do it.
- “**It is all about strategy,** and the board needs to have a laser-like focus on strategy.” It is critical that strategy is built and continually assessed by the board and CEO. “Strategy is not a document that gets built every so often and then referred to. Strategy is an ‘expirational’ thing the board and CEO are constantly testing against competitors, customers, and the organisation's capabilities based on the ever-changing landscape. It is the roadmap and the way the company is trying to go.”

Talent

- **Strategy and talent are closely linked.** Does the company have the leadership and talent to lead the organisation, recalibrate strategy as needed, and execute the strategy? “How does the board get exposed to talent early enough to understand management's capabilities, identify potential gaps, and identify and help develop potential leaders?”
- “**Identifying and selecting the CEO** is perhaps the most important thing the board does.” “Look at candidates through the lens of a time horizon: What does the job look like at this moment in time and in the next five years?”



The CEO needs to use the board as a resource and not just as an up or down vote on a presentation.



A resource to the CEO and management

- “There are probably **a lot of CEOs who do not view the board as a resource** or as adding value. That is a core job of a Chair – enabling the board to be a resource to the CEO, and getting the CEO to see the value there.”
- In terms of the Chair serving as a resource to the CEO, **“the CEO needs someone who has wisdom that is exploitable**, someone who has a record of experience, perhaps as a former CEO, and has experience in dealing with a crisis, and dealing with activist shareholders.” “The CEO brings me his or her thinking in progress, and my job is to listen carefully and share what I really think.”
- As to the full board as a resource, “We have 12 people on our board, and it is a diverse group experienced in lots of things. The CEO needs to use the board as a resource and not just as an up or down vote on a presentation.”
- “Setting **expectations for what it means to be a director** is incredibly important. With the increase in the number of first-time directors, you cannot assume they will come into the job knowing exactly what the job is. The expectation that the board will serve as a resource must be made clear to all directors – and emphasised during the new director onboarding process and reinforced in board and individual director performance assessments.”

Ensure the CEO and board agree on how the firm will be run.

The demands of institutional shareholders for companies to develop their own statements of purpose raise the stakes for the board and the CEO to agree on the company's purpose and how it will take stakeholder considerations into account in its efforts to create long-term value.

As a starting point, the Chairs we spoke with emphasised the importance of clarity on this issue, and then for the board and CEO to agree on how the company will create value and be run.

- “Our primary purpose is the creation of long-term value, but **what is long-term value and how is it created?** There is a lot of focus on stock price, as opposed to the intrinsic value of the firm. If you are focused on stock price, you are likely to focus on buybacks and quarterly earnings. If you are focused on intrinsic value, you need to focus on discounted free cash flow and will have a different orientation.” What are the drivers of long-term growth and how will the company measure success? What performance targets are appropriate? What compensation incentives are appropriate?
- “You cannot create long-term value for shareholders unless you are acting responsibly to employees, customers, suppliers, and communities.” **How does the company make decisions impacting each of the stakeholder groups?** How do the company's actions affect each stakeholder group in the context of long-term value creation? “If there are certain societal issues the company is being held accountable for, and if you are not resolving them, you will be held accountable. The company serves at the pleasure of the regulators and the society at large.”
- **Recognise that growth is hard.** “Few companies have substantial growth over time.” “The board and CEO must agree on – and continually reassess – the company's growth strategy, the assumptions underlying it, and the company's innovation efforts. What is disruptive innovation and are we under attack from a disruptive innovator?”

Addressing these issues will form the basis of a pact between the CEO and the board that makes explicit the guiding philosophy of the firm, how it will define and create value, achieve success, and the framework for making decisions.



What are the drivers of long-term growth and how will the company measure success?

Assess whether the board's composition and dynamics enable it to serve as a resource for the CEO and management.

“Who are our directors and what are their management styles and areas of experience?” “Skill sets are only part of the equation. It is also about culture. Do we have people who understand their role, which is to provide oversight and advice? That’s different than taking the board discussions down a personal path. The Chair needs to counsel directors who may be undermining the desired culture.” “It is about composition and culture and everyone understanding the rules of the game.”

“**Relevant, first-hand experience is invaluable.** We need directors who have faced challenges that are similar to the challenges the company will face in the future so that they can act as a sounding board for management.”

“Does the company provide **rigorous board and management education on fundamental issues** such as ‘intrinsic value’ and how the company creates it? What is disruptive innovation and how does the company recognise and respond to it?” Don’t limit director education to technical developments or what it means to be a good director.

“What is the **quality of our director onboarding**, and our board evaluation and refreshment processes?”

Is the board – through its **committee structure** – bringing the right focus and attention to what matters most to the company’s long-term value creation?

Insist that the CEO take the lead in driving the right relationship with the board.

An important responsibility for the CEO is to set the tone and help build a relationship of trust with the board – and within the board – and to help make the board more productive and efficient.

Particularly on the issues that are most critical to the long-term success of the company – such as strategy, risk management, talent, management succession, and the culture throughout the organisation.

“**Boards are teams** whose members each perform critical functions but who work in concert with one another; the CEO needs to work deliberately with the Chair on building the team of the board.” “It hurts the CEO if he or she does not have effective relationships with the Chair and independent directors.”

“The CEO’s responsibility to drive the right relationship with the board should be explicit as a **goal in the CEO’s compensation plan.**”

As one Chair emphasised, “finding the right level of engagement is a difficult challenge for the CEO, which is why the Chair plays an important role in helping the CEO get it done.”



Skill sets are only part of the equation. It is also about culture.

Consider how the Chair, as the point person for the independent directors, can facilitate a healthy board/CEO relationship.

"As Chair, my role is to help the CEO get his/her job done by communicating with the board, and to facilitate transparency and trust among board members and between the board and the CEO and management."

Communications with the CEO between board meetings

Chairs typically **meet with the CEO (at least monthly) between board meetings**, sometimes face-to-face, but often by phone – "which is better than email". Among the practices and approaches that Chairs shared with us:

- "We will go through a set of issues the CEO is currently managing, and determine whether the issues should be raised to the board or committee level. I step back to be his/her sounding board and help him/her get her job done by communicating with the board or individual directors who may have a particular expertise."
- "The purpose of these between-meeting calls with the CEO is to maintain the line of communications and get at things one-on-one. You are touching base with the CEO more or less monthly. The most important thing is to understand that your job is to lead through influence and through "followership", which creates a relationship."
- "As Chair, I am available any time and he takes advantage of that. I want to make sure that the issues the board is concerned about get surfaced to management and vice-versa." "At the same time, it is important to keep some distance from the CEO. The relationship needs to be tapered, and public views are important. This is business. We both want the same thing – for the company to be successful."

Communications with fellow directors between board meetings

"There is so much going that is out of expectancy. Crisis has become the norm these days. A danger is that if everything is going okay, it is going to just keep going okay. It is important for Chairs to get other directors' viewpoints on critical issues facing the organisation. Sometimes you cannot get these insights in executive sessions."

Prior to board meetings, the Chair **should solicit input on possible agenda items or issues of concern** from other directors and share them with the CEO.

Common red flags regarding the CEO's (and senior management's) performance and their relationship with the board.

- Watch for red flags of an "imperial or autocratic" CEO.
 - What are the dynamics between CEO and senior leaders during board meetings – are others waiting to take cues from the CEO before they speak?
 - How are decisions made and how much decision-making authority is down the line?
- Is the Chair too close to the CEO – does the CEO control the relationship?
- Is there an "old boys club" at the board and senior management ranks?
- Beware of a culture of arrogance or hubris – particularly at iconic companies.
- In spotting these red flags, "relationships" count.

Executive sessions

Chairs and directors all emphasised the importance of executive sessions but take different approaches:

- “Just after management sends out pre-read materials, I send an email asking the board members if they have any topics they want to cover in executive session. I also check in by phone with the committee Chairs to see if they have any topics to offer. By pre-thinking the executive session a bit, we are ready to go.”
- “At each board meeting, we have two executive sessions: one with just the CEO at dinner the night before the board meeting. He tells us what we will hear and what to listen for. It is an opportunity for directors to ask questions and get calibrated for the board meeting. We will then have a directors-only executive session the following morning, before the board meeting. I do not like having executive sessions at the end of board meetings. No one wants to sit there and rehash the board meeting.”
- Other Chairs, while often conducting executive sessions before board meetings, hold executive sessions immediately after each board meeting. “It is an opportunity to make certain you are getting individual perspectives. Ask the question: Did we use our time wisely today? Were there things on the agenda that should not have been or things that were not on the agenda that should have been?”

Feedback to CEO from executive sessions

No one size fits all, and Chairs take different approaches to providing feedback to the CEO (and management) following executives sessions, but all emphasised that the **feedback to the CEO should be timely**. “The certainty of the timing of feedback reduces the stress of the CEO and management.” Among the approaches to providing feedback to the CEO and management:

- “In my experience, what works best is to invite the CEO back into the room immediately following the executive session. The Chair summarises the collective thoughts and messages of the full board and gives directors the opportunity to add anything, and gives the CEO the opportunity to respond. There are messages that I reserve for a one-on-one with the CEO – and I tell the directors in advance why I am holding these issues for a private conversation.”
- Other Chairs express concern that it is difficult for the CEO to absorb all that input from 10 or so directors on a real-time basis. Instead, they suggest that the executive session discussions “first need to be digested and crystallised” by the Chair. Later – the next day – the Chair should provide feedback to the CEO “in terms of the broad themes and action items”. “Letting the process decompress and then having that conversation may be more helpful to the CEO and also for the Chair, particularly if there is a serious issue. When you have a board meeting and then you have an executive session, by the time you come to the end of all of that, people are usually not in the most receptive mood to hear what you are telling them.”



The Chair needs to instill confidence and trust that the board’s collective views are being heard and considered.

- Regardless of the approach to providing feedback, “the Chair needs to instill confidence and trust that the board’s collective views are being heard and considered in the messaging back to the CEO and management team. To maintain the trust of the CEO, management team, and directors, the feedback needs to be clear, timely, and consistent.”

Board meetings

- “Encourage board meetings to be a dialogue, not monologues. If the same director is going on and on, give the CEO cover and step in and say let us table this for now, and we will come back to it. That is the traffic control element that enhances the opportunity to create engagement.”
- “**Devote most boardroom time to forward-looking issues rather than retrospective.** There is little the board can do about the prior period. The opportunity to influence is prospective, not retrospective.”
- Closely monitor the boardroom culture to ensure everyone’s views are heard. “You have got to get directors to express themselves, and you have to work at getting people to feel included sometimes.”

Communications with committee Chairs

- Chairs typically hold periodic meetings with committee Chairs both to coordinate the work of the board and committees and to ensure that the voices of the committees are being heard.
- “These meetings are an opportunity to enhance board operations and oversight processes, including coordination across committees, to bring the right focus and attention to those issues – such as strategy, innovation, disruption and strategic risks, capital allocation, performance, leadership, and talent – that are most critical to the company’s success and long-term value creation.”
- “The committee Chairs need to have confidence that their views are being heard and considered.”

Succession planning: What to look for in a Chair

“Continuity is important. It should be a director who has served on the board for a while and has a solid understanding of the company and its executives – someone who has the trust of the CEO and the respect of fellow directors.”

“The CEO should want someone who is **independent** from her/him and who can add value – someone who is willing to tell the CEO what he/she is doing well and what needs to be improved.”

“The CEO needs someone with **wisdom** that’s exploitable – with a record of board service. Experience as a CEO/Chair, first-hand experience in a crisis, and engagement with activists are all valuable to the Chair role.”

“While it helps to have an experienced director and former CEO serve as Chair, it has to be abundantly clear that the Chair **does not want the CEO’s job** and the CEO does not work for the Chair.”

The role requires an additional **time commitment**. “Time is number one. I would say easily 100 hours beyond being a board member.”

“When you get to skills, you need someone who is **comfortable being a leader** – and *is* a leader with the courage to step out to deal with difficulty and pull people together in a collegial way. Someone who has low ego needs and does not have to be the loudest voice in the room. Someone who exerts influence and power appropriately. Has great listening skills and asks follow up questions – has the ability to listen and facilitate, not just talk.”

“**Pulling it all together:** someone who is compatible with the CEO but who isn’t the favorite or would go easy on the CEO. But style-wise and trust-wise, the Chair has earned his or her place with the CEO, and the CEO is comfortable and trusting in that relationship. Someone who can communicate well with the investor community – even when there are no challenges or activists, someone who gets out in front and has conversations. Someone who knows your role versus the CEO role in discussing issues with investors.”

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