BOARD DYNAMICS

Fine lines in the relationship between the chair and the CEO

By Neil Britten and Tom Coyne

In Britten Coyne's recent research into the dynamics of the relationship between nonexecutive chairmen and CEOs on the boards of large international corporations, some surprising lessons emerged, which may also be applicable to the relationship between combined chair/CEOs and their lead directors.

• CEOs often don't fully understand the chair's role: The chairs we interviewed were very experienced business leaders, most with several CEO positions on their resumes. Yet many admitted that it was not until they became board chairs themselves that they fully understood what this role entailed. (Twelve chairs — men and women — were interviewed. Their average tenure as chairs was greater than 10 years, over an average of three roles. Their board-level experience covered more than 20 business sectors for just over 100 organizations. The full report is available at www.brittencoyne.com.)

A frequently cited example was that a CEO may interpret frequent meetings requested by the chair as a lack of confidence, whereas chairs see them as critical to developing the trusting relationship that underlies the effective functioning of the board. Only in retrospect did our interviewees appreciate how the pressures of being a CEO had limited their understanding of the chair's role.

Moreover the majority of our interviewees felt strongly that the roles of chairman and CEO should be separate, even when they had not felt that way when they were previously a CEO.

• The "lifecycle" of chair/CEO relationships is fairly predictable: An early stage of relationship building is likely to be followed by a stable period, typically several years long, during which harmony is the rule. However, unless the transition of the chair or CEO is anticipated and managed smoothly, the end of this harmony is often triggered by an unanticipated crisis – a strategic failure or rapidly escalating threat.

• The chair/CEO relationship can very quickly unwind: We found a unanimous view that crises can quickly undermine trust in the chair/CEO relationship, just when a CEO believes they most need their chair's support. When this happens, one of the chairman's key roles is to decide when to replace the CEO. Chairs recognized that this sudden shift in the chair/CEO relationship inevitably comes as a shock to new CEOs.

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• A successful chair/CEO relationship can lead to board "risk blindness": Chairs were all keenly aware of the board's critical role in governing strategic threats to their company's survival, at a time when regulatory changes have placed more emphasis on this duty. They were also familiar with studies of major corporate failures that have shown how boards of even the largest and most sophisticated corporations can fall victim to "risk blindness" — the apparent inability to perceive, effectively assess or adapt to potential threats to a company's strategy or survival.

The cause of this risk blindness is a board of directors' collective familiarity with imperfect information. Such familiarity arises when the board is feeling overly comfortable that everything is under control, fostered by the successful and trusting chair/CEO relationship.

This is a paradox for chairmen whose key role is to create an effective board. They need to build a relationship with their CEOs. Yet chairs all noted that board risk blindness was most likely to develop when the relationship between a chair and CEO was at its best.

• Deliberate processes offer a potential resolution to this paradox. Chairs were all keenly aware of the fine line they walk between challenging management assumptions to avoid strategic risk blindness and undermining the chair/CEO relationship necessary for an effective board. Some chairs believed that their board directors' individual experience and relationship skills were sufficient to meet this challenge, while others were exploring greater use of structured processes and outside advisors to facilitate structured discussions between nonexecutive directors and management. They were also considering greater use of independent advisors to help the board monitor early warning indicators for key risks, given their belief that existential threats are developing faster than ever before and shortening the time available to successfully adapt to them.

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