Chairmanship

The Effective Chair-CEO Relationship: Insight from the Boardroom

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FORWARD BY IRA MILLSTEIN

In the last 10 years, many governance reforms have come to pass. The S&P 500 now have predominantly independent boards, CEO and CFO accountability for financial reports and full Audit Committee oversight of financials. A fresh series of changes are flowing from the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act and Securities and Exchange Commission rules. For instance, corporations publicly listed in the US must for the first time provide explanations to shareholders about their board leadership structure as well as their reasons for separating or combining the Chair and CEO titles.

With this backdrop, more US companies than ever appear to have moved to a separate Chair model. Spencer Stuart reports that, in 2010, 40% of the S&P 500 now feature separate Chairs, up from 23% at the beginning of the decade. Of the 40%, 19% may be classified as independent Chairs, up from 9% five years ago. Booz Allen's research on CEO succession reports that, in the US, only 16.5% of incoming 2009 CEOs had both the CEO and Chair title, a much lower number than 2000, when about half the incoming CEOs occupied both positions.

As separate board leadership becomes more prevalent, the Chairmen's Forum —a group of independent Chairs at corporations in the US and Canada—turned its attention to how to make the Chair role work – and in the case of this report, how the Chair and CEO can work effectively together. With more firms having a leadership structure that includes a non-executive Chair and a CEO, we need to understand what that relationship is all about. And one way to shed light on the topic is to tap the experiences of those who have served in those roles at public companies. What constitutes a good relationship? What should be the basic framework of the relationship? What are good practices and what approaches are unproductively risky? Are there specific features that might predict problems? And, if there are such early indicators of trouble, what are some of the ways to get a relationship back on track? A well-constructed relationship between a CEO and a non-executive Chair can create value – for investors, customers, employees and the community. Gaining insight on how those partnerships can thrive—and what can make them fail—is of urgent relevance to Chairs, CEOs, boards and investors.

Past practice provides little guidance. There are no books of etiquette or protocol addressing North American conditions that can guide a Chair or CEO to the "right" answer and, clearly, each relationship is as unique as the two people who are in it. Therefore, our goal is to understand what constitutes a winning relationship between two individuals, each successful in his or her own right.

To better understand this challenge, the Chairmen's Forum cooperated to sponsor research into the nature of a successful Chair-CEO relationship. Dr. Elise Walton, an established management expert, conducted thirty five interviews with Chairs, CEOs and stakeholders. The findings discussed in this paper distill their insights from boardroom experience. Note that this working paper reflects the views of the author and not those of the Millstein Center, Yale School of Management or Yale University.

–Ira Millstein is Senior Associate Dean for Corporate Governance at the Yale School of Management

I. INTRODUCTION

This paper examines the role of the corporate Chair in the context of one of the most important relationships the Chair has – his or her relationship with the company's CEO. To approach the topic, the Chairmen's Forum sponsored a research effort to interview experienced Chairs, CEOs and stakeholders. After the Forum agreed on the project, a research plan was designed and approved by the sponsors. Key interview questions and interview candidates were reviewed and approved. The main areas of the interview included: background experience with the two roles; successful situations and what worked; challenges and what didn't work; how a relationship develops over time; and recommendations.

After the interviews were conducted, comments were analyzed for common themes and ideas, as well as areas where opinions clearly diverged. Themes were grouped into major topic areas. Three areas describe conditions for an effective working relationship: Chemistry, Framework and Context. A fourth area reflected the value of an effective working relationship, and the fifth covered recommendations for how to improve Chair-CEO effectiveness more generally. A preliminary draft was shared with the Chairmen's Forum in November 2010 for comment and review. Participants shared reactions and comments for a revised paper.

The report and stories herein reflect knowledge and practice in North America at a point in time and, as such, it attempts to contribute to the development and evolution of knowledge and practice in the culture of board leadership. It should not be understood to represent timeless, empirical truths; rather, it has the potential to help in development of guidelines and insights for those working with current and real challenges today.

II. THE CHEMISTRY OF THE CHAIR-CEO RELATIONSHIP

In discussing the nature of the Chair-CEO relationship, the first thoughts offered by CEOs and Chairs on what makes for an effective relationship are broad words like "chemistry," trust, respect, confidence. These high level descriptions convey a general feel of the relationship. But what are the specifics of the relationships that work? What are the elements that make up this "good chemistry" — and can they be replicated?

The factors that emerged from interviews and discussion were several – communications, consideration, professionalism and individual characteristics. By far, the most noted contributor to good chemistry was good communications. Good communication is the fabric for creating and sustaining the right tone of the relationship.

However, since the definition of "good communication" can vary from person to person, it is important to explore what "good communication" looks like in the boardroom. Said one non-executive Chair: *"communication – that's such an easy thing to say and such a hard thing to do."*

In probing beyond the headline, some common characteristics of good communication emerged.

1. FREQUENT AND OPEN COMMUNICATIONS.

Most Chairs and CEOs said they communicated regularly - a couple times a week - with their counterpart, particularly at the onset of the relationship. The most common cadence was weekly, with the highest frequency being daily interaction and some reporting a monthly frequency.

Most important was that the communication should be "open." The term open was used to express qualities of communication like direct, unrestrained, informal – the sense that either party can and will say what is on their mind. Said one director, *"It's important to be tactful and consider how to approach sensitive issues, but it's equally important to be direct. And most times you'll find that the other guy is well aware of the issue."*

Another Chair described dealing with an issue as his discomfort rose.

> *I felt that we were seeing numbers that didn't tell the full story, and that the CEO wasn't being completely open. I had a sense that the numbers were being managed around compensation goals. I scheduled a lunch with the CEO and raised the issue directly. I wasn't*

completely satisfied with his answers, but now he knows it's on my mind and he knows what I want to see. (Non-executive Chair)

The ability to have this direct conversation was essential; and Chairs and CEOs alike felt that few circumstances warranted less than full transparency.

Further, open and frequent communication had some specific qualities, listed below.

Communication frequency follows circumstance. Communications often started off at a higher frequency progressing to more consistent, but less frequent, communications as the pair built a shared understanding of issues and options. Said one Chair:

> *Toward the end of the five years we worked together, the CEO and I tended to meet less frequently. Even though the company was going through tougher times later in our tenure, we knew the issues well, so we worked more effectively. (Non-executive Chair)*

Communication increased greatly during major events and major decision windows. A new Chair, a new CEO, an acquisition under consideration, a hostile tender offer, unfavorable media coverage, or a regulatory investigation - these types of major events would increase the frequency of Chair-CEO communications.

Whatever the circumstance, neither party should hold back from communicating, said one Chair, *"At times I feel awkward, but I never want the CEO to be in a situation where he should have heard something and he didn't. And I don't want to be in that situation either. So, I may err on the side of over communicating, but I prefer that risk to the other."*

Communication is purposeful. Non-executive Chairs, in particular, noted that they made an intentional effort to stay in touch with the CEO. First, that meant setting aside dedicated time to work with the CEO. For one Chair, that meant flying to the opposite coast and working there for one week per month. For another Chair, it meant onsite meetings once a week. For a third, it meant scheduling a monthly lunch – at either his workplace or the company. All Chairs specifically planned for time with the CEO – it wasn't left to chance. Second, both Chairs and CEOs had an agenda to work on – in some cases, the agenda might cover longer term strategic topics, in other cases it could be specifics of dealing with issues before the board. But the planned time together was put to good use.

One part of purposeful communications is ensuring that time spent together is focused and productive. Another part of purposeful communications is ensuring that conversations are not unnecessary or outside the scope of the board's role. Chairs worked hard to be respectful of management time and not to take up time unnecessarily. Most Chairs paid close attention to what they were covering with management, being sure that it fell within the board prerogatives and did not impinge on management's role. One Chair said, *"I always ask myself – 'do I need to know this? Is this a board responsibility?' before I make a request to the CEO."*

Communication takes many venues. While planned meetings were an important part of the communications, many of the exchanges were "pick up the phone" type of communication. One Chair said that he emails the CEO a few times a week. Another Chair and CEO emailed daily as the corporation dealt with an unsolicited bid – email headline: "Catching Up." Chairs and CEOs felt this informal, staying-in-touch communication was essential. There should be no hindrance or hesitation to reach out and share a thought.

CEOs in particular valued one-on-one time with the Chair – this was seen as an important mode for sharing openly. One Chair pointed out – *"Many of the discussions have a lot of nuance – that's hard to convey in an email, or in a committee meeting. One-on-one we can calibrate ideas and issues much more freely."*

Although communication can take many venues, face-to-face communication is important. Many chairs noted that, for good communication, geography matters. Being located geographically close appears to make it easier to keep formal and informal communications alive. One director argued that, while competence is top priority, the location of the candidate should be part of the consideration set when choosing a non-executive Chair.

CEO-Chair communication facilitates broader communication. A good Chair-CEO relationship helps communication among all the board and management. Chairs and CEOs alike felt that each should have unrestricted access to the rest of the board, and to top management. Directors could go straight to the CEO, or other top management, and the CEO could reach out to directors without going through the Chair. The Chair, too, should interact directly with senior management - with the support of the CEO. Said one Chair,

> *If I do my job well, then I'm going to be helping the CEO communicate. I'll have a better sense of what's going on in the company, and he'll have a better idea of what topics the directors are thinking about, who he might want to check in with and what needs to be on the agenda. (Non-executive Chair)*

This extended to informal, even unspoken, support, as many Chairs noted that it was easy to create a climate that made it difficult to communicate. Said one Chair:

> *The former CEO was paranoid- when I spoke with anyone at all on anything, even when he was in the room, he was always protective. After he left the job, I heard from staff that he would grill them on any interactions they'd had with me. It created a very unproductive climate. (Non-executive Chair)*

Thus the Chair-CEO relationship is seen not as a bottleneck but as an enabler of communication. One Chair noted – *"if everything has to go through me, then I have failed."* Another Chair commented – *"I've seen it where the CEO wants the Chair to be his advocate on the board, to go "tell" the board to approve management's proposal. Things should **not** work that way."*

One CEO advocated strong one-on-one relationships between committee Chairs and related, supporting executives - going so far as to recommend that the CEO allow the committee to work solely with the accountable executive.

> *Committees are really effective if the CEO doesn't attend the meeting. Relevant senior staff – CFO, CHR - should attend. The Committee Chair should have a dialogue directly with one (and only one) staff member who works with the Committee Chair. If there's something that comes up, more people can be brought in, but that one-on-one relationship between the Committee Chair and the executive should be strong. (CEO)*

Another Chair took a different view on committees – that the discussion benefits from having the CEO in attendance. This may be a case where Chair-CEO relationships adapt to preferences and situational requirements. Either way, the CEO and Chair model open communications and that model affects the culture of the board and the senior team. Working out the communications and access norms reflects and builds trust. Where good communications between the Chair and CEO is absent, problems emerge with board communications.

In Their Own Words...

BUILDING THE MANAGEMENT TEAM

"The board was pleased with getting such a great CEO. We hired him particularly because he had a great track record with people and we knew he would be able to build a team capable of taking our growing consumer products company to the next level. Nine months into his tenure, the board had to make some compensation decisions, and struggled over some continuing executives. Unfortunately, one decision blew up. We had made a recommendation on an executive's compensation and the CEO was not happy. The CEO was so unhappy that he wrote an email to the full board sharing his personal and professional frustration. In all, he thought the board had acted disrespectfully by making a decision without consulting him.

I see it a little differently – I think we did consult with him and inform him, but we had a continuing difference of opinion and finally it was time to act. From our perspective, this executive was in a key position - Chief Marketing Officer (CMO). Several directors had deep marketing experiences and they knew what to look for. For a consumer products company, the CMO has to deliver marketing vision and effectiveness, and we didn't see it. I understand opinions differ, and maybe the CEO was looking for a different contribution than the board expected, but we saw an issue that wasn't being heard.

After the incident, the CEO and I sat down to talk – with plenty of time to discuss concerns and frustrations. This was a trigger issue for the CEO. He shared a few reactions. One, his frustration that the board went over in executive session time – with people waiting, knowing the topic, it was awkward. Two, he felt his time got short shrift, and he was unable to share some of the plans he had for the CMO, on talent development and backup. I shared the board's view: that he was somewhat defensive of the individual.

In all, it was a good conversation and we agreed to ask a small group (General Counsel, VP HR, and the Compensation Committee Chair) to outline a better, more formal process for talent review. We also agreed that the CEO would be more proactive in sharing his talent-management plans, even informally, and that the board would work on managing time more effectively to avoid the delays to his team. In the end, we'll have a better process and we'll continue to improve our relationship. But, it all started with just sitting down to listen.

Several months later, the CMO left of his own accord, and the board approved the group's recommendations on talent review. In all, we put together a strong process for building the management team – a top priority for the business."

2. RECIPROCITY AND CONSIDERATION.

CEOs and Chairs felt that the relationship had to be balanced and two-way. While the communication might be informal, either party was equally likely to call the other. Either might initiate a conversation on a topic. CEOs, in particular, noted this quality and felt it was important that they be able to voice their concerns and issues. Specific examples of reciprocity and consideration are throughout the text and inserts. See specifically Building the Management Team, and Aligning on a Strategy. Interviewees cited three common elements of reciprocity and consideration:

No surprises: an important element of chemistry is that the Chair not be 'surprised' by news, particularly bad news. This is mostly the CEO's responsibility. Specific processes aid this outcome, but it should also be the desire of both to keep the other fully informed of issues and potential issues that relate to corporate performance and leadership.

Keeping each other in the loop: With regular communications among directors and executives, there is plenty of opportunity for misunderstandings and unintended intrigue. For instance, the Audit Chair may speak with the CFO one-on-one and each brief their counterparts, the Chair and CEO respectively. The Chair and CEO should calibrate these individual conversations to ensure the same messages were heard. Interviewees recommend that the CEO and Chair stay in touch on the tone and content of the important communications occurring among board and management. If either the Chair or CEO is "out of the loop," distrust can fester.

Presumed goodwill: Critical to the relationship between the Chair and CEO is a shared confidence that each wants to see the other be successful. If that is presumed, conflict and criticism are easier to deal with professionally. Said one Chair: *"We created a board climate where people voice their ideas, and they don't worry if their proposal isn't the best, if their idea doesn't win – because we are in it together and we all need each other to be successful."*

A very specific problem can arise when motives are suspect. One Chair said pointedly, *"when the CEO thinks you're after his job, it's hard to work effectively."* Another Chair recommended that the board be explicit: *"the board should be clear that the Chair is not a candidate for the CEO's job – you can just take that issue away."* Conversely, if the CEO is angling for the Chair title, that foreshadows challenges.

Aspects of reciprocity and consideration make for a constructive working climate. However, in no case should mutual goodwill eclipse the best interest of the company, which leads to the next aspect of chemistry.

3. CLOSE BUT NOT PERSONAL.

Interviewees recognized that the Chair and CEO require a close working relationship. This might involve travel together, appearances together, and frequent collaboration on communications. But most agreed on a crucial feature: the successful relationship generally should not cross over into a personal friendship. Maintaining a professional distance is important to retaining objectivity and the ability to handle conflict and issues without worrying about the risk to a friendship.

> *We may run into each other at a civic event or some other social function, but ask me how often I've golfed with the CEO? Never. It's not about a personal relationship, but it is about good communication - I'd rather overkill on communication. Communication is very important, and one-on-one communication is particularly important. (Non-executive Chair)*

> *The larger point is that it is critical to have a balance: the Chair has to have confidence in the CEO, and vice a versa, but you have to have enough distance so that fellow board members can bring matters to you and not just "be heard," but know they are talking to an interested peer. They want to know you are not just repeating what management would say. Then it works well. (Non-executive Chair)*

One non-executive Chair noted that, while it was important to have unrestricted communication with management and stay up-to-date with corporate development activities, the Chair should be circumspect about spending too much time with management, to avoid the natural pull of becoming "too close."

While the Chair should set the tone on "close but not personal," the CEO can also weigh in. The CEO should be clear around norms of involvement, said one Chair:

> *The CEO can set norms. If the Chair is getting too involved in operations, the CEO should address it with the Chair. If they can't agree, the CEO can take it to the board. (Non-executive Chair)*

4. KEY INTER-PERSONAL QUALITIES.

When discussing the tone of the relationship, eventually, the interviewees turn to the individuals, noting the importance of the characteristics of the people involved in the relationship. Chairs and CEOs described qualities desirable in both roles – collaborative, honest, and accessible came up frequently as qualities desirable in both CEO and Chair. The absence of ego was also mentioned.

Some qualities that were more distinctly identified by one of the other. For instance, when Chairs cite qualities they value in their CEO, three qualities commonly emerge. The first is **competence.** Is the CEO able to lead? Does she or he inspire confidence? Is the corporation being well run? These are descriptors that indicate that the CEO is the right person for the job. Said one Chair, *"When you have a CEO who's really good at doing his own job, that makes my job pretty easy."* The second quality Chairs value in CEOs is **authenticity**. The openness quality (cited above) lays the foundation for authenticity – in being open, the CEO fully conveys facts and logic behind recommended decisions. But beyond conveying facts and logic, the authentic CEO shares his or her personal point of view, concerns, and values. Finally, Chairs valued CEOs who demonstrated a **willingness to learn** and an interest in the ideas of others. It goes beyond being collaborative and inclusive to genuinely valuing the contributions of the Chair, and others. Notably, Chairs frequently call out a relationship red flag in the opposite qualities– arrogant, egocentric, and controlling CEOs spell trouble. One Chair noted that a good relationship is enabled by a secure CEO, observing:

> *The CEO is a good leader; he's confident and open at the same time. He's secure. He's not worried about who I talk to. He knows I know my role and that I'm there to help. He seeks the counsel and insights of the board. By contrast, the prior CEO was paranoid – always suspicious of who was talking to whom. (Non-executive Chair)*

Another underscored the ego factor, explaining one failure of a Chair-CEO relationship as follows:

> *It was a classic clash between two Alpha males, and you would think it was a pretty predictable outcome. When you have two strong personalities with different ideas about where to take the company, then you're bound to have problems. (Stakeholder)*

From the CEO perspective, CEOs identified two important qualities in Chairs. First, CEOs appreciated a Chair who was **good at listening**. Listening skill, as described by CEOs, went well beyond the ability to hear and recall things that were being said, but included the ability to get at the speaker's underlying thoughts, concerns, and meaning. Thus, the tag "good listener" often reflected broader qualities like good thinker, good question-asker, and good investigator. And the skill was not simply to make the CEO feel comfortable in communicating, but also because of the important role the Chair plays with the rest of the board. Chairs that can listen to, synthesize, and prioritize issues on the mind of the directors can facilitate board decision making, flag issues and generally make the CEO's job easier. Said one CEO, *"if my Chair can give me perspective on what's on the mind of the board, how directors are doing, questions they have, that's a big help. It's not a substitute for my direct relationships, but the Chair can orient me to issues from a different perspective, because I know I don't hear everything."* (See Building the Management Team and Aligning on Strategy inserts.)

A second quality valued by CEOs involved **credibility**. Sometimes this statement simply meant that the Chair had earned the respect of the board. Some referenced prior CEO experience on the part of the Chair as helpful. Equally valued was a track record of having dealt with challenging situations well. As one CEO said, *"I'd like to know he has done a good job in a tough situation."*

Finally, in looking at the characteristics of the two individuals, there is some benefit to **status equivalence.** That is, the accomplishments of one should seem roughly equivalent to the accomplishment of the other. They need not be identical in venue or level, but if there is a sense that one player is not in the same league as the other, that can cause problems.

Having the fundamentals of good chemistry is a start, but other factors support and maintain that chemistry. Functional aspects of the relationship can incite unproductive conflict or facilitate productive problem solving. To understand how these help or hurt, we cover the elements of the framework that participants consider important.

III. HAVING A CLEAR FRAMEWORK

Having a clear framework – including a common sense of purpose and direction, clear roles, and effective processes – is an important component for successful Chair-CEO relationships. The framework is built by clear communications and good chemistry, but the reverse is also true: the right framework helps build strong communications and trust. The elements of the framework are elaborated below.

1. SHARED COMMITMENT TO CORPORATE WELL-BEING.

When looking across many factors, the underlying commitment to the company was paramount as a common feature of successful Chair-CEO relationships. This was the focus that allowed the board and management to work through differences, and for the Chair and CEO to partner effectively.

> *We both know that, at the end of the day, we're both here to serve the corporation and its shareholders. And, some day that might mean he's not the right guy for the job anymore, or I'm not the right guy for the job – but either way, we both share the view that it's not about us, it's about the business. (Non-executive Chair)*

In the successful cases, the commitment was more than just to doing the right thing for the company and its shareholders, but that there was a common sense of *how* to achieve that goal. Most Chairs expected management to take the lead in proposing strategy, tactics, and targets, although they wanted to ensure board views and suggestions got their appropriate due. However, it was important that the Chair felt that, overall, management strategies were intelligent, had a good prospect of success and could be explained to shareholders if that became required. Issues about a specific action, target, or acquisition were thoroughly vetted and the underlying logic agreed. The ability to discuss and debate strategy led to a deeper understanding of the business propositions and logic.

There was also a keen alignment around goals and targets, and that the strategies and goals represented an objective effort for what was in the best interests of the company. Said one Chair:

> *I don't see how you could have a Chair and CEO who had two different and separate ideas for the company. That company would be strategically rudderless. This alignment is very important – if the Chair and the CEO don't agree on some big strategic issues and choices, you'll waste a lot of time. (Non-executive Chair)*

In Their Own Words…
MERGER OF EQUALS

"The CEO and I worked really closely on the merger - we went to meetings together, we talked about what kind of analysis we needed, what decisions needed to be made. We bounced ideas off of each other. But we were very explicit about involving the whole board – the merger had to be a full-board effort, not just a Chair-CEO project. We agreed we'd both listen to the board's ideas and concerns, and we had a very open and transparent process. Having come out of bankruptcy, we had a lot of banker types on the board, and we were sensitive to creditors' concerns, but there was no question that we were both committed to building the best company in the business" —(Non-executive Chair – Acquired Company)

"I worked closely with my CEO and that was a benefit. But so did the Chair and CEO of the acquired company. So we had two lines of communication – Chair to Chair and CEO to CEO. That worked well, because we do tend to bring a different lens to the problem. For instance, the CEOs took a strong look at cash flow – a very important concern in our industry. Us Chairs were concerned with some of the more strategic, long-term issues like the final design of the company – what assets should be jettisoned, who should lead the new company, compensation issues and what the governance model would be. Some of these are tough decisions – especially when you have employees who have devoted their lives to working for your brand. On some of these, the CEO is conflicted – you can't expect a CEO to approach certain decisions impartially. We got to tough decisions on names, locations, structure, because we had confidence in each other. In the end, the combined firm got to better decisions because we had both the Chairs and the CEOs actively involved in the merger process."
(Non-executive Chair – Acquiring Company)

At the most basic level, if either party is seen as pursuing personal agendas – for wealth or power – that is a clear red flag.

Strategic alignment is a necessary condition for success. It can be critical when making big decisions (see Merger of Equals and Aligning on Strategy inserts).

2. DEFINED BUT ADAPTABLE ROLES.

Chairs and CEOs agree: The CEO runs the company, the Chair runs the board. That is the basic starting point for all discussion. The matters for board consideration are the basics of strategy, performance, and succession, but usually extend to mergers and acquisitions, material financial decisions (capital expenditures, stock buybacks, financing deals), as well as approval and monitoring of the annual budget and plan.

Effective relationships involved some upfront discussion about roles. One Chair used a role matrix from governance publications, going through the line items sequentially to gain clarity on who would do what. Another Chair described being "interviewed" by the CEO before taking the position:

> *It was clear that the CEO didn't think I was a perfect match for the Chair position because I don't have the usual background for the role. But at the same time, I didn't have any complicating issues. I think, really, what he really wanted to know is if I wanted to be CEO or be Chair, so we spent a lot of time talking about the distinction between the CEO and Chair's position. (Chair)*

But moving beyond the manage the board/manage the company headline, differences emerge. For instance, a few Chairs make a habit of meeting with stakeholders – investors primarily. One Chair devoted extra time to two major shareholders that sat on the board, but didn't reach out to other investors beyond the directors. Other Chairs avoided any interaction with investors or the investment community, with one going so far as to indicate that he would not feel ready (one year into the role) to represent the company's financial status or results to investors. Some attended management functions – a Chair's award event, an occasional employee meeting, a senior team meeting; others did not. The common denominator across these differences: the activity set was acknowledged and understood by both the Chair and the CEO as areas for Chair engagement.

Thus, there are not hard and fast common rules across practice, but general rules clearly elaborated into specific, well understood practices.

To work out mutual roles, a few suggestions were made. First, complementary skills and approaches may make the working relationship smoother. One Chair commented that the CEO often brings urgent, shorter-horizon work to the board; and that the Chair provided a counterbalancing longer-term orientation. Conversely, the CEO, who described himself as "immersed in the day-to-day," valued his Chair bringing bigger-picture perspective to the conversations. The same would be true in the area of business skills – if one individual knows the insurance business, while the other knows marketing, it's easy to know who will take the lead on problem solving in those respective areas. Where the skills are complementary and trust is high, it may be effective to divide the leadership initiatives.

Where the expertise is overlapping with the CEO, the Chair will need to put in the time to ensure that the two are of common mind. Chairs, like CEOs, are more likely to have opinions and get engaged on topics that touch their areas of expertise. For instance, financial skills are a frequent area of overlap. Said one Chair:

> *In this corporation's line of business, acquisitions are a critical component of business strategy. There are a number of us on the board with substantial experience in mergers and acquisitions and the capital markets, so naturally we have views on mergers and acquisitions processes, valuations, and information needed to make a decision. The CEO was concerned that our questions and requests were making the process cumbersome – and that our involvement could prevent the company from acting swiftly on critical strategic opportunities. (Non-executive Chair)*

While the board's concerns caused some friction, the good relationships among the CEO, the Chair, and the board members led to an effective, positive, replicable solution: the board and the CEO outlined the standard template of information that would be provided to the board for acquisitions the board needed to approve. This provided management with a clear idea of what information they would be asked for, and required to prepare. Further, it removed the unpleasant task from the board of having to send back proposals for more information. Overall, the decision process moved more quickly. (For a similar story, see insert Building the Acquisition Process.)

A second area was around specific Chair assignments, or dual roles, which could cause role conflict. One Chair reflected on a Chair-CEO pairing that didn't work well:

> *The Chair-CEO relationship was pretty tense. One thing that may have added tension between this CEO and his non-executive Chair was that the Chair was also Chair of the Compensation Committee – that was an irritant, and it should be separated out. Later someone else took over the Compensation Committee Chair role, but it was too late. (Non-executive Chair)*

> *The performance appraisal process – the evaluation of the CEO – may be best led by the Compensation Committee Chair – that's who should do it. If it's the non-executive Chair leading the process, you drift into a boss relationship. (Non-executive Chair)*

These comments illuminate an important aspect of the Chair role – the Chair is not the boss of the CEO. The board has authority over the CEO, and the Chair manages the board, so the Chair, indirectly, has formal authority over the CEO. Chairs, however, generally want it to be clear that they do not intend to manage the CEO, in the traditional sense of the word.

While acknowledging the need for Committee Chairs to lead some of the board's tasks, the Chair does retain an overall role in coordinating the CEO evaluation and feedback processes, and, generally, as board leader, the Chair delivers the feedback to the CEO on year-end performance.

3. EFFECTIVE PROCESSES.

Having processes that allowed for engagement, debate, and true decision making was important. These processes may develop in response to issues that emerged, or they may have been pre-existing. The cited benefit of processes was the ability to manage opinions and build alignment effectively.

Chair-director communication. Communications should include formal and informal venues, be open, be regular – and multi-lateral. As with the CEO, effective Chairs communicated frequently with other directors. Some organized one-on-ones by phone or otherwise, others built it into an ongoing assessment process, and still others used travel time ("the airport lounge") for communications. The "staying in touch" process creates the context – it allows the Chair to keep his or her finger on the pulse of the board, to be sensitive to opinions and issues that need attention. Regular communication helps the Chair know what issues are on people's minds, it helps him or her be more effective in facilitating good discussions and outcomes. It also helps the Chair communicate effectively with the CEO – as the Chair develops an ability to share perspectives and alert the CEO to emerging interests and concerns.

Agenda management. Having the right discussion at the right time is important. Interviewees frequently recommended rigorous attention to management of the board's executive session time. Executive session discussions are highly valuable for important and sensitive issues. Chairs take time before the formal meeting to ensure that board members are informed on key issues and to identify the questions that needed to be covered.

Agenda management for the whole board session is also a critical arena for the non-executive Chair, and an area where he or she brings a unique contribution. Said one,

> *When I became non-executive Chair, I got a cubicle at the offices. I spent a couple of days a week there, and spent some time talking to a few executives – making it clear I was just there to learn. After a while, I got a much better appreciation for the issues the company was working on – and what the board needed to know. It wasn't that management wasn't telling us something, it was that they live and breathe the work, so sometimes they don't think to share something they assume directors know. So I started reshaping the agenda, and pushing for pre-reads, and more time for discussion at the meetings. Now, I'll work closely with management on the agenda, and they'll come to me to float ideas about what and how to present material to the board. It's improved the process. (Non-executive Chair)*

Having a clear agenda management process is important because the agenda is best crafted by the CEO and Chair working together. Organizing the agenda should not be approached as a last minute exercise, and interviewees observed that, in their experience, last minute agenda planning did not work well. Some pairs met a week in advance to review the agenda; others kept an ongoing dialogue so that a preparation meeting was simply a confirmation of earlier discussions. But all thought the CEO and Chair needed to be sure that the agenda is substantial and meaty– precious board meeting time should be spent in focus areas that are important and worth discussion. Many boards also look at agenda topics through the annual timeframe.

Problems arise when the agenda is not agreed upon – particularly when one party or the other feels important items get short shrift. Chairs identified one risk: without strong board guidance, agendas can become dominated with compliance and regulatory topics submitted by legal elements in management.

In Their Own Words…
BUILDING AN ACQUISITION PROCESS

"It began when a few directors who had a strong background in strategy started feeling uncomfortable with the number of acquisition proposals the board was getting. The company had seen several proposals – some big, some small, some similar to our business model, and some very different. We just felt we were behind the curve in understanding some pretty basic things, and the CEO seemed to feel it was all under control. We sponsored a research project to figure out how other boards – particularly those for companies with active acquisition strategies – dealt with mergers and acquisitions. The benchmarking was useful – particularly in looking at different models for handling the topic – some used an executive committee, some had a special committee, a strategy committee, or a transactions committee. This made a lot of sense to us since some of us were better suited for the analytics around an acquisition, and it didn't make sense to drag the board through all the detail.

Another thing that helped was the framing – having the CEO put the acquisitions in a pipeline – starting with the opportunity space, to the fit assessment, to the qualifications – including due diligence, pricing and integration planning. Just having that map helped frame up the decisions we had to make.

Although we had to smooth things with the CEO, overall it worked well, and the board did a much better job overseeing acquisitions. Ironically, when the CEO left two years later, we heard from staff that this was one of the best things the board did."

Major decisions. For decisions that come to the board, particularly those that come regularly, there should be a process. Without a process and overall framework, the board is stuck with a simple thumbs up/thumbs down decision.

One topic that arose frequently in interviews was the area of major acquisitions. For many growth companies, acquisitions are an integral part of strategy. Smaller companies may acquire two or three companies a year; a large Fortune 50 can acquire up to 20 companies a year.

Every acquisition, of course, requires a rationale – what is the business case, what are the risks? Experienced directors know there are vital questions that must have acceptable answers. This is where the Chair has played a leadership role. Said one:

> *We would get a proposal, but we wouldn't see key data, or we'd see some, but not all. I know we frustrated management by sending proposals back with questions and challenges. Finally, we came up with a pro forma that management had to complete for any proposal – that covered the core of our question areas and we were able to get back to them within the week. It was a simple intervention but it made the working together on acquisitions a lot more effective. (Non-executive Chair)*

More generally, throughout the interviews, three specific decision areas emerged as needing good processes:

- **Major transactions.** Whether it be ongoing acquisitions, potential mergers, divestitures, or a sale of the company, it is best to manage it methodically. Particularly for activities that likely repeat, such as acquisitions, it should be managed as a process – not a one-off event. One company reviews the acquisition landscape (what competitors are doing; what companies might be targets) whether or not an acquisition is being proposed. This relieves the Chair-CEO relationship of the thumbs up/thumbs down decision and its fallout. It puts decisions in a framework that aids informed decision making for all. (See Building an Acquisition Process insert for one Chair's experience.)

- **Compensation.** Given the importance of this, as well as the scrutiny received from proxy advisors, this was an area where a clear process needed to be in place to ensure the board was involved.

- **People.** Chairs and CEOs had clear agreement about the division of roles with respect to corporate personnel: the CEO manages the people. At the same time, a board will be uncomfortable with a C-suite leader whom they lack confidence in. While it may not be the board's action item, directors will want to know that their concerns are heard and appropriate actions are taken. Here, relying on reciprocity and consideration, Chairs and CEOs do well to outline a process for dealing with different opinions on people, and agree on plans all can live with. (See Building the Management Team insert).

4. LEADERSHIP TRANSITION STRATEGY.

Chairs pointed out that leadership transitions are particularly important – for the Chair-CEO relationship and also for the company. Relationships have a lifecycle. Where relationships are determined by roles with anticipated terms or contracts, the relationship can go through predictable cycles. Athletes anticipate movement to new levels – progress from one level to the next being expected. Changes in relationships effect outlook, performance as well as health and wellbeing – our own and those around us.

In professional settings, it is important to pay attention to changes in relationships. The change of a CEO or Chair represents a significant event in corporate leadership, and should be given sufficient attention to make sure the transition goes well. Poorly executed transitions stress the organization and create unnecessary costs and risks. Few responsibilities are as important and sensitive as the responsibility to ensure the company is well led and that leadership transitions are smooth.

Planning and managing CEO succession is a critical responsibility of the board and the Chair. Much has been written about the board's important role in CEO succession. Regarding the Chair-CEO relationship, interviewed CEOs recognized the value of having a Chair to deal with transition. One CEO reflected on his first year:

> *When I was hired as CEO, the non-executive Chair agreed to be available for me – to help me get up to speed on the company and the industry. That meant he would come out for a week a month and that really worked well. I'd prepare questions and topics I wanted to cover with him. We'd have some sit-down sessions, and I included him in some management meetings – which was very helpful. He gave me feedback and we got our views aligned around key near-term issues. After about 10 months into it, we didn't need so much time on the basics and our conversations became more strategic. But his support was great at helping me get started. He was also very good at introducing me to players. (CEO)*

In Their Own Words...
ALIGNING ON STRATEGY

"In 2006, the industry was changing, and the financials told the story. There were different views among directors about the future of the company: some wanted to find a strategic buyer – a kind of financial exit; others felt the company should stay independent, believing a turnaround effort could restore the financial health and realize substantial shareholder value. As a Chairman, my challenge was to bring the board members together behind a unified strategy, despite distinctly different views.

We also had to hire a CEO. Once hired, the CEO found himself in the middle of the strategy fight. Clearly, he represented one strategy: the path of rebuilding the company and staying independent – that's what we hired him to do. The challenge for him was to figure out who was what side of the argument and why. Both of us had to spend one-on-one time with directors, understand their positions and thinking, what they saw in the situation, and try to bring those more to the center. For me, the challenge was bringing a group together; for him, the challenge was earning the trust of the people who had favored the financial exit strategy.

One thing that helped was the strategy process we used. It was step-by-step, methodical, and had three phases. We said, "Let's have a full understanding at each strategy juncture." That brought everyone along and built buy-in to the final decision. Management and the board worked very hard on it, but the transparency behind the strategy was critical: management didn't just present a baked strategy to approve. Eventually, the board got behind one strategy, but it took a time and effort. It came together over a six month period.

It was a real challenge for a new CEO coming into that environment, and the economic downturn made it even worse. But having worked through this together meant the board was behind the CEO. Of course, there's another point of view: some criticize the board for supporting the CEO given our performance. However, this board is not shy or acquiescent: we understand the criticism, but we also understand the options, and we stand behind the decisions.

I serve at the pleasure of my fellow board members, and I need to understand what's on their minds. When a director has a view that's different from where the majority of members are going, I try to understand their thinking. When we're on that topic in the boardroom, I focus on how to bring the issue up without getting personal, and how to encourage that director to come forth at the right time in the conversation. It can be really important to let someone else take the lead, let them lay their ideas out there, and have others react to the ideas. The Chair has to lead from the middle.

The days of a boardroom run by a celebrity CEO or a Chair who ramrods decisions through are gone. The transparency and trust between the board and management is invaluable. You can see the value of an aligned board. We need that alignment to be able to execute on decisions quickly, which is particularly important given the short time frames of our industry."

The speaker's comment embodies key chemistry principles – of frequent and open communication, of facilitating communication – described earlier. It also illustrates how a Chair can effectively help with onboarding a new CEO, as well as how the Chair can partner with the CEO during a major strategy decision. (See insert Aligning on Strategy for another Chair's story.)

Not coincidentally, several boards created Chair roles when the corporation faced a sudden, unforeseen change in executive leadership – such as the exit or death of the CEO. In the case of Warnaco, the CEO died during a board meeting, and a Chair role was created, and a Chair promptly appointed. In the case of McDonald's, the unexpected death of the CEO led to the immediate creation of and appointment of the Chair, who oversaw that CEO transition, and then another CEO transition. In some cases where a board facilitated the exit of a CEO, the board found itself needing a Chair to hire the new CEO.

As with CEO transitions, guideposts and a timeline are helpful for Chair transitions. Chairs emphasized that the Chair role should have some minimum term. What did not work was overly frequent rotation: one described a board in which the presiding director rotated at each meeting – at a high price to board effectiveness. Many had annual elections to appoint the Chair, but anticipated the same Chair would be reelected over several years. Several recommended a three year term, one a five year term. Said one Chair, *"I'm a fan of the 10 year term – you get about three years to get really good at the job, three years to make a difference, and three years to plan to hand the place over. You can always modify the term, but it gives everyone a starting parameter for setting expectations."* Terms were helpful not only to allow a Chair to develop continuity and effectiveness, but also for ensuring that no one gets a position for life.

A particularly thorny topic is when an individual moves between the CEO and the Chair role. Many felt strongly that the CEO should not become Chair, as it is likely to create explicit and tacit constraints on the new CEO's leadership. In addition, it does not fit with the recommended independence of the non-executive chair.

On the reverse path, some Chairs have gone on to become CEO. One Chair noted an important ground rule for the unique transition when the CEO comes from the board.

Any new CEO needs to realize that all his relationships will change. People see you differently and treat you differently when you are inthe CEO position. This is particularly true when the CEO comes from the board, and Chair/CEOs who switch roles would do well to remember that. You have a different relationship with people as a board member than you do as a CEO. (Non-executive Chair).

When a Chair becomes CEO, there should be a designated requirement that a new Chair is appointed immediately. (Non-executive Chair)

In sum, a framework – including a common commitment, role clarity and good processes – is a key element for having a strong working relationship

IV. THE ENABLING CONTEXT

A Chair-CEO relationship works well when there is a supportive context– like having the right people around them – in place. Having a strong, supportive board; a competent and accessible management team; and a culture of openness reinforce the effective working relationship of the Chair-CEO. Where the board has low support for management or for the Chair, anticipate problems. Where the management team sees the board as weak or overinvolved, that too will cause problems.

Of course, the context and the relationship are interdependent – the Chair and CEO can influence the board and management they have. Where support is not in place, it is the first order of business for the pair to understand the issues and to take action. There have been cases where the CEO and Chair worked together to rebuild the board, in some cases replacing all or most of the directors (see insert Repositioning the Company). Where there are issues with management, the two should work together to ensure they are addressed either by replacement, development, or role changes.

1. A COMPETENT AND SUPPORTIVE BOARD.

Having a board with competent directors who know how to work together is, of course, a vital condition for the enterprise. It is also vital for the CEO and Chair relationship. First, a board that understands the non-executive Chair role will channel discussion and activity appropriately – avoiding unnecessary conflict and miscommunications. Second, a strong board can organize to do work effectively – a good Audit Chair, Compensation Chair, and Nominating and Governance Chair will provide appropriate care to their domain of responsibility, allowing the Chair to focus on the full board areas. In total, the board works better. Third, the Chair and the CEO should regularly compare perspectives on the board and directors, with the Chair responsible for incorporating the information into the overall board development plan.

2. A STRONG AND ACCESSIBLE MANAGEMENT TEAM.

There are key executives that can work closely with the CEO and the board – the General Counsel, the CFO, the Corporate Secretary and the head of Human Resources, key business leaders, among others. When these roles are staffed with competent people who work well together, it is an aid to board effectiveness and supports an effective Chair-CEO relationship. As discussed earlier, directors should talk to the senior team in formal and informal settings. Some boards have

In Their Own Words...
REPOSITIONING THE COMPANY

"A few years ago, we had a really tough year – we dealt with an unsolicited bid from a corporate, a proxy fight with an activist investor, anti-trust issues and general disillusionment among employees and customers. And we spent a lot of time and energy analyzing the stock price. We knew down to the penny what drove value, because we had to make tough decisions in the interests of all shareholders. Throughout the year, the CEO and I worked closely – communicating daily. But there were things the CEO couldn't credibly do – he was too closely identified with the company. It fell to me to talk to investors about our willingness to negotiate.

All this led to a relook at the company's strategy, assets and structure. At the end of the year, the CEO and I discussed the structure going forward. I didn't have to say much – he said, "I know, we have to talk about my role." He could have done the CEO job easily, but media coverage had tarnished his ability to lead. The company is really fortunate that he was willing to stay in an advisory position– he's knowledgeable, well connected and he's a huge draw for talent. So we launched a search for a new CEO. The board had already done a good job identifying what needed to be done, and we needed someone who could credibly take the company in that direction. We looked inside but ended up taking on an outsider. We spent time together – I gave him the lay of the land, background on decisions, employees, and so forth. He said point blank: 'I have enough to do. I'll handle the company, you manage the board.' I knew what he meant.

I did just that. In light of the company's strategy, I looked at where the board was weak and strong. And there were some legacy directors that were no longer good fits. I just said matter-of-factly, 'We have to talk about your transition off the board.' Three directors (on the board via the activist investor) resigned in 2009. Another director did not stand for re-election and, after a search, we added three new directors including an audit partner from a big 4 firm, and two CEOs in the industry. The company is much better positioned to execute on its strategy now."

approved having the senior team join the regular board meeting and expect executives to contribute during board discussions.

Although Chairs usually report that the CEO is responsible for managing the executive team, when directors perceived problems in the management team, this is a red flag for the Chair. In one case, the board and the CEO disagreed about a senior management member. The board had a longstanding concern about one particular executive's effectiveness in position; the CEO acknowledged some weakness but defended the executive as effective to serve. Over time, the Chair and CEO collaborated on an evaluation of the individual in question – an important resolution to a conflict area that troubled the relationship early on. In another case, the board knew that rebuilding the team was required to achieve the business goals set forth, and the board was engaged in key compensation decisions (see insert Building the Management Team). Where there are disagreements about the competency of an individual on the management team, the Chair and CEO will do well to raise it early and agree on a course of action.

3. THE RIGHT CULTURE.

Most corporations will have a distinctive culture. Often times that culture reflects the nature of the work itself – consumer goods companies will have a strong consumer, marketing, creative focus; oil rig builders may have an engineering culture with a focus on safety. But culture can be a real detriment to information getting through to the board. One Chair described the corporate culture as very closed – reflecting years of protecting top secret patents and technologies. This created something of a barrier to open communications between the Chair and CEO. The Chair acknowledged the challenge it created for CEO-Chair communications:

> *I have to calibrate how much of it is the CEO being standoff-ish and how much of it is just the culture of the company. Sometimes it's difficult, but I make sure I am getting through to the CEO and don't let the culture dictate our relationship. (Non-executive Chair)*

Another Chair described the efforts and outcomes of efforts to build the right culture:

> *In every group of people some talk more than others, and the process of bringing out the more quiet ones so that every voice was heard – that was something I worked hard at. We changed the tempo of the meetings too - less standing up and giving reports. The meetings are structured around a few key issues with plenty of time for dialogue. And management has learned we don't want a data dump. And we've moved legal and compliance related work to the committees where possible, because the board time should be really focused on running the company.*
>
> *At this point, management and the board speak very openly. There's little hesitation or grandstanding. We focus on listening and understanding: we want to do the best thinking collectively. People put ideas forward, and they will take debate on their ideas. People learn more when they get criticized. But it's not personal or personalized - there's no lingering career risk if their idea doesn't carry the day. Occasionally, there's a temper flying – but rarely. It's not a cautious discussion, everyone is genuinely at the table. It's changing times, and a changing need for board effectiveness. (Non-executive Chair)*

Chairs recognized the paramount importance of their role in culture – setting the tone at the top.

> *The tone at the top is reflected between the non-executive Chair and the CEO. Is there trust? Open communication? Not a lot of second guessing? (Non-executive Chair)*

The recent BP oil spill has given some insight into the importance of culture to a company, its reputation, and its leadership. The culture – valuing cost savings over safety – is alleged to have been a contributor to the Maconda blowout and other BP accidents. The culture evidenced by BP leadership in the aftermath appeared equally damaging: perceptions that leadership was remote, disinterested, and unhelpful harmed BP's reputation as much as the spill did. And the board's role was unclear: although it was closely monitoring the situation, its actions received little media attention– leaving outsiders and many shareowners to wonder whether directors—and, in particular, BP's Chair—was adequately monitoring the CEO. If anything, this event indicates the importance of considering culture as a critical contextual variable for the success of the Chair-CEO relationship.

V. MAKING A CONTRIBUTION AND SEEING RESULTS

When factors identified above are handled effectively, there are clear benefits for the Chair, the CEO, and the corporation. They can be seen generally, but also in specific outcomes. Some specific benefits are listed below.

1. DISTINCT VALUE OF THE CHAIR ROLE.

As with any role, the Chair role is delineated for the distinctive value it creates – for focus, expertise, activities and results. The CEO role has been the subject of much research, writing and applied education. Major consulting firms have a CEO practice; business schools have CEO offerings. The contributions of CEOs are well studied, debated and documented.

The non-executive Chair role is relatively new on the scene in North America. It has also been studied, though not to the same degree as the CEO role. The non-executive Chair role, although increasingly frequent in the S&P 500, is still in less than half the major US firms. The Chairmen's Forum's 2009 paper Chairing the Board outlined Chair responsibilities, drawing on a broad array of research and writing. However, *practice* is not the same as research, and making the designated role real in practice can be a challenge. Guidelines are subject to interpretation, and specific work related events or decisions will likely involve both Chair and CEO roles. Thus, an effective relationship is likely to enable unique Chair contributions. An ineffective relationship - particularly one in which a new Chair is eclipsed or neutered by a dominant, role-comfortable CEO - will rob the company of the Chair's value and contribution.

The specific areas interviewees identified as where the Chair uniquely contributes are summarized below. For interviewees, **by far the most important contribution of the Chair is to facilitate the board's voice, and to provide a point of accountability for the board.**

> *One thing our Chair does is that he makes sure that everyone offers a point of view, has something to say, explicitly, on important topics. That's something that would be hard for a Lead Director to do. And since the majority of proposals a board sees are from management, it can be very hard for a person proposing something contrary to the CEO. A Chair can help get an airing of alternative views. At the same time, the Chair shouldn't become the ringleader of the opposition. (CEO)*

Another CEO emphasized the importance of managing the board, saying:

In Their Own Words…

DEALING WITH A SHORT-TERM ACTIVIST

"We quickly realized that management's strategy was going nowhere – we were dealing with an exponential math that couldn't last. The company pursued a strategy of opening stores that had taken us to the lowest sales per square foot in our competitor group. They promised double digit margins, a rare occurrence in the retail industry. When they failed the stock fell to 10% of its peak value. This was what we had to clean up.

Given the harsh retailing environment, the board undertook a review of strategic alternatives including an outright sale. Shortly thereafter, the activist investor, who had cashed out at $24 a year earlier, was offering to buy the company back at $9, arguing that the store opening strategy was the right strategy. We had to take the offer seriously, because he was threatening a proxy fight, and $9 was twice the current trading range of the stock. We put together a thorough analysis showing that the [activist investor's] strategy was not sustainable, that the current leadership and board had the right skills, and that our strategy was sustainable over the long-term. We took our story to proxy advisors and to investors: and all of this is publicly available on the Edgar database.

In the end we prevailed, and put together a fair and impartial sales process. A year later, we sold the company for $17.40 – well over the activist's offer. And the company was in far better shape. Much of what we did had to be done by the Chair and the board, because even the new CEO was conflicted. At the same time, the new CEO brought expertise, and managed the company. We kept in close touch during the sales process, although of course he was excluded from the special committee when he entered negotiations with the buyer."

Sometimes, certain board members become ineffective but untouchable - everybody sees it but nobody does anything about it. That's when the Chair's leadership is very critical – in getting things moving in the right direction. Usually, if there's a stumbling block, it's not between the CEO and the Chair, but it's at the board level. Biggest weakness in a Chair is not being objective and taking action on directors. I don't need a Chair to commiserate about the crazy uncle; I need someone who will do something about it. (CEO)

One specific area where Chairs described their contribution was in **investor communications**, particularly where they felt the company's story had not been adequately told. One Chair offered the following narrative:

When we were rebuilding the management team, we found a high quality individual who could really help in a key business area. We anticipated he might likely improve operating performance by several million dollars annually if he took the position. To help him to make the transition, we provided a partial housing allowance in his employment package. Well, a proxy advisor believed this was a poor pay practice and issued a withhold recommendation for the directors on the Compensation Committee. The Compensation Chair and I got on the phone with several major investors and explained the situation: this was a situation where management's business judgment really reflected the corporation's and the shareholder's best interests. The investors we spoke to "got it," and voted for our slate of directors. That time, I think having the distinct and independent Chair role – and an independent Compensation Chair – helped in a concrete way. (Non-executive Chair)

Another CEO described a hostile bidder situation where the bidder was angling to present to the board. The Chair turned down the bidder, and the CEO reflected:

It would have been hard for me to turn down the bid, because people would assume that I was working a personal agenda - that I was concerned about my job, or my power, or my income. The Chair didn't have the same stakes in the game, so he would appear to approach the decision with more objectivity. (CEO)

Chairs did not universally see investor relations as part of their status quo role, most recognized that they could be called upon for investor communications should the need arise. The insert Dealing with a Short-Term Activist describes how one Chair specifically helped the firm, investors and shareholders. The common thread in this and other contributions is that, in certain instances, the Chair can communicate on a topic more credibly than the CEO. This set of responsibilities should be subject to mutual agreement and explicit review by the board.

Perhaps one of the most valuable contributions the Chair makes is **managing board composition and development.** Having a clear point of accountability for managing the board – one that is distinct from management's role – facilitates building and maintaining a strong board. Both CEO and other directors understand that the Chair is the pivot point on director decisions. Said one Chair:

I know I'm accountable for the quality of the board – now more than ever. Sometimes there are differences of opinion: the CEO might value director qualities and attributes differently than the board does and there's the potential for conflict. Someone has to shepherd that process and be keen to see the board's views are paramount. (Non-executive Chair)

In several cases reviewed for this paper, there were distinct contributions by directors, facilitated by a Chair role. These were idiosyncratic – based on company need and Chair capability. For instance, one Chair helped the CEO build the business in Asia. In another case, a technical expert on the board reviewed some of the key technology strategies. In a different case, the Chair drove the implementation of Sarbanes-Oxley governance regulations. These contributions were facilitated by the Chair managing the board and director engagement. While much of this might have happened without a Chair, the ability of the Chair-CEO partnership to ensure that all parties were of like mind made for productive outcomes.

2. BETTER OUTCOMES THROUGH JOINT DECISION PROCESSES.

CEOs and Chairs offered examples of where the joint efforts of the Chair and the CEO together with the board led to a better outcome for the firm and its shareholders. In a somewhat typical story, a non-executive Chair described how differences of opinion led to a better solution:

What we should pay to other senior management people was a struggle in 2008. Problems had occurred under their watch. We had a long-term compensation program with restricted stock, which had a hurdle rate, and because of poor performance in 2007, management's long term compensation was gone. But the CEO was sensitive that he needed to reward the team, he didn't want them to walk. I was a little more in the camp of 'shareholders have gotten beat up and some of the pain had to be shared by management' so we came around to a plan which depressed current income in the year we gave the bonus but provided a retention- based bonus to those who stayed 3 years to see the turnaround through. (Non-executive Chair)

Another director described being able to help reach a better decision on a major acquisition. The target was nearly the size of the acquiring company, and would have made a big change in the size of the company. Clearly, management favored making this acquisition. A private polling of the board indicated that few thought it was a good idea. Although management wanted to vote at a Thursday meeting, the Chair recommended deferral pending further investigation. Said the Chair, *"maybe a few directors might want to support the CEO, but most would vote a straight no. It would be less than ideal for the board to vote no on the first big proposal from the new CEO."* Over the course of three intensive days, the board and management worked on the acquisition – investigating a broad array of risks, estimating returns and value. After intensive work, the acquisition continued to look troubling and the CEO himself suggested that the firm should not proceed with the effort. This turned out to be a prudent decision, and the process strengthened the board, management and their working relationship.

In another example, one Chair recognized that there were a few clumsy practices in the company's procurement process. This sometimes made it more complicated to explain certain capital expenditures to the board and other stakeholders. While not significant enough to call out as a red flag, the Chair thought it was important to address. As Chair, he brought the issue to the CEO – formulating the concern and suggesting a way forward. After several conversations, the CEO outlined a plan for improvement, which he presented to the board for approval.

These cases illustrate the importance to the "chemistry" aspect of reciprocity and consideration. Better outcomes were realized because the Chair and CEO worked well together. The benefits would not have been realized had either forced a decision on the other.

3. MORE ENGAGEMENT AND COMMITMENT.

The non-executive Chair role requires a significant commitment both in terms of share of mind and time. Interviewed Chairs acknowledge that they would do the work required regardless of their title (for instance, Lead Director versus Chair). As professionals, they will fulfill the duties determined by the role, the responsibilities and the circumstances. Some interviewed Chairs made a specific effort to indicate that they do not favor one leadership structure over another, said one, *"I don't want to get into any debates about titles – title doesn't matter to me ."*

Several interviewees noted that the Chair role has specific and clear responsibilities that may or may not be part of the lead director role. For instance, the Chair runs the meeting – both full meetings and executive sessions. The Lead Director may or may not run the meeting. There are prerogatives that more naturally go with the Chair title, and are therefore, more natural to take. Initiatives taken by the board leader are attributed to the Chair role, not to an aggressive director trying to over reach his influence. Thus, in taking initiative, the Chair is seen as fulfilling a professional duty not pursuing personal power.

Some Chairs felt that the title helps get work done. The title conveys responsibility. The conferred responsibility increases the attention paid to the Chair's insights and suggestions. Increased attention can increase understanding and ability of proposals. Better understanding and acceptance of leadership actions increases overall board effectiveness.

When pushed to consider the relationship contribution of the Chair role, some Chairs contemplated: *"perhaps I work a little harder because of the title."* This comment came as an afterthought, after an exhaustive list of more concrete benefits. However, this comment suggests an outcome long known in psychology – that conferring a role on someone affects not only the behavior of those around him, but also affects the behavior of the individual role holder him or herself. Perversely, CEOs who partner with a non-executive Chairs may find themselves with a better, more motivated partner than those CEOs who have Lead Director partners.

VI. IMPLICATIONS FOR ACTION

The insights from the Chairs and CEOs are worth building on, and may be particularly useful for an emerging culture of independent board leadership. Chairs will undoubtedly be interested in what they can learn from the practices of their peers. In the spirit of sharing learning, there are some specific implications for action.

1. CLARIFY THE VALUE PROPOSITION OF THE LEADERSHIP MODEL.

The non-executive Chair is a recent development in the US corporate governance landscape. The premise – put forward by advocates - is that such a board leadership model can facilitate better decision making in service of long term shareholder value by providing clear and focused lines of accountability. The non-executive Chair can also be a unique thought partner to the CEO as the two fulfill their intertwined responsibilities to shareholders and other stakeholders.

An important caveat is that effective leadership structure is a *one* element in a *suite* of good practices –which include clear, frequent shareholder communications; reasonable and fair compensation practices; strong audit processes; a good board; and a good management team. Singling out leadership structure as the sole lynchpin for success is flawed logic. Safety belts don't prevent accidents from happening, but they certainly help contain injury when accidents do happen.

Therefore, in this paper and elsewhere, communications should underscore the value of this structure in context – as part of a framework of good governance practices.

2. CODIFY NORMS AND PRACTICES.

There are details that can be addressed straightforwardly, and these could be more generally acknowledged and recommended. Throughout the document these have been highlighted, but are summarized and added to below:

I. Frequent, open communication and easy access between the Chair and CEO
II. Have an onsite work space available for the Chair's use (about 2/3rds of Chairs had onsite offices)
III. Have a job description for the Chair
IV. Chair should Chair the board primarily, avoiding Comittee Chair roles during his or her term. Some felt the Chair might also Chair the Nominating Committee, although this requires independent judgment and a clear case supported by the full board.
V. Chair should check in, one-on-one, with other directors, at least quarterly
VI. Annual evaluations should provide feedback to the Chair on his or her leadership of the board
VII. Succession planning for the board and the Chair is essential.
VIII. Chair and CEO turnover should be planned in consideration of each other: some felt that concurrent change was undesirable from the perspective of stability and continuity. The succession plans should be known to the board and reviewed annually.

3. BUILD PRACTICAL KNOWLEDGE AND CAPABILITY.

Networks, conferences, education events, and publications that help non-executive Chairs and their CEOs build strong working relationships. Learning from the experience of others can allow newcomers to build capability more quickly. The UK Chairmen's Forum, for instance, matches non-executive Chairs new to their role with experienced Chairs, who serve as mentors. Also, discourse can allow standards to emerge more quickly, and while each pair is unique, where they can refer to commonly accepted practices, there is less need to hash out new approaches, and less room for contention and conflict on less important topics.

The CEO role receives substantial attention – from the company, the board, investors, and the media. As outlined earlier, the CEO role and its counterpart C-suite roles are studied, analyzed, evaluated, and thoroughly examined by a broad audience. The leadership qualities of the CEO have been written about for decades, the Chair for only a short while, at least in North America. As the non-executive Chair role is less familiar, the role may likely, in practice, be more idiosyncratic and captive to personal preference and understanding. Because directors and executives have less experience with this role, it may be important to *over* focus on the Chair role to ensure adequate communication and understanding of how the role *should* work.

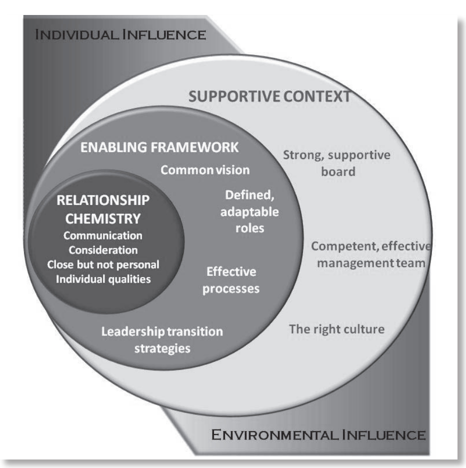
The Chairmen's Forum is clearly one way of doing this, but learning generated by the Chairmen's Forum may be shared with a broader audience – either via internet, conferences, or publications. It would behoove the group to find venues where CEOs, investors, or the press gather to share and discuss the findings of this work.

VII. SUMMARY

Based on the insights of Chairs, directors, CEOs, and stakeholders, this paper reviews key practices seen as contributing to an effective Chair-CEO relationship. The ideas represent lessons from experience covering decades of corporate governance and leadership. Some of those interviewed had direct personal involvement with seminal governance events in recent North American history – including the CEO/Chair changes at General Motors in 1992, the Disney CEO/Chair change in 2004, and corporate restructurings stemming from the 2008 financial crisis. Insights draw from experiences that cross economic cycles, industries, continents, regulatory development, investing fads, roles and, of course, decades.

Across these many stories and lives, three major themes of "working relationships" emerge: relationship **chemistry**, helpful **framework**, supportive **context**. These areas and the related practices are outlined in Figure 1. Looking across the map, the question arises: ***what area is most important to the effectiveness of the CEO-Chair relationship?*** The three areas differ in the degree and nature of how they influence the CEO-Chair relationship and effectiveness. Interviewed Chairs talked about communications and chemistry extensively, yet one CEO felt that chemistry seemed a small place to start the picture, saying *"Communication seems like a micro issue. If you get the right framework, focusing on chemistry and communications is not so important. Getting the right framework can get you to the right chemistry."*

CHAIR-CEO RELATIONSHIP FRAMEWORK FIGURE 1



Indeed, the context and framework may have greater influence on overall effectiveness than chemistry alone. Over time, the areas are interdependent and mutually reinforcing – a good context and framework support good chemistry and vice versa.

However, as individuals, the Chair and CEO have more immediate and direct control over their "relationship chemistry." Over time, the Chair and CEO must influence the framework and context. Ideally, all Chairs and CEOs start out with a great board and a great executive team, but history guides us to acknowledge this is not always the case – and in these cases, where the framework and context are poor, the CEO and Chair must work together to create the right working context.

Another question raised was: ***When does an effective relationship most make a difference?*** Clearly, an effective relationship, good governance and other elements of corporate management are important efforts to navigate in complex, turbulent environments, where economic performance is susceptible to changing consumers' preferences, technology breakthroughs, global economic events and other significant forces. A relationship cannot guarantee firm performance; however, in our critical incidents, the effective relationship between Chair and CEO did lead to observable value (see Table 1).

In case stories, a strong relationship matters most under two types of conditions:

- *Repositioning the company*: due to any number of circumstances and causes, the company suffers reputation and market capitalization damage; the company needs to be repositioned which may include strategy review and adjustment, executive changes, increased communications to investors, analysts, employees and press. It also often involved appropriate (re)valuation and communication of such to markets. In one case, the strong Chair-CEO relationship undoubtedly contributed to the company's ability to keep mission-critical talent.

- *Major asset decisions*: whether continuous as in an acquisition/string-of-pearls growth strategy, or a major merger of equals, the Chair-CEO relationship allowed the board with management to manage key decision outcomes such as brand selections, market presence, leverage, risk, and so forth.

	CASE SUMMARIES Table 1					
CHALLENGE	Aligning on Strategy	Dealing with a Short-Term Activist	Building the Management Team	Merger of Equals	Creating an Acquisition Process	Repositioning the Company
CHAIR-CEO ACTIONS	▪ Mended board divided by strategic options challenging performance conditions ▪ Strategy process ▪ Chair and CEO one-on-ones with directors	▪ Reassessed strategy and stated goals ▪ Prepared presentation for proxy advisors ▪ Drove fair sale process	▪ Candid Chair-CEO communications on executive assessment ▪ Showed consideration and respect	▪ Key issues to be decided ▪ Addressed potential management conflict of interest ▪ Used "dual channels" for information interchange	▪ Performed benchmark research ▪ Outlined Acquisitions Pipeline process ▪ Designated Board subcommittee	▪ Chair-CEO efforts (joint and separately) dealt with activist investors and unsolicited corporate bid ▪ Rebuilt board and management team
VALUE REALIZED	▪ Board aligned with strategy – speed of decision making ▪ Strong, supportive board ▪ High degree of transparency and trust	▪ Won proxy context ▪ 80% value realized over hostile bid	▪ Improved talent review process ▪ Competent, effective management team	▪ Best brand & location decisions ▪ Fair price and post-merger financial structure ▪ Competent, effective management team ▪ Strong supportive board ▪ Effective processes	More effective process created: ▪ more transparent choices ▪ prioritized spend within budget package ▪ more efficient use of executive time/less executive frustration ▪ faster decisions	▪ Activist investor engaged; eventually moved on ▪ Improved strategy and market messaging ▪ Competent, effective management team ▪ Strong, supportive board

Thus, Chairs and CEOs who foresee these types of challenges on the horizon would do well to pressure-test the strength of the working relationship. Specifically, it might be worthwhile for Chair-CEO pairs to do a quick checklist on how they assess the relationship, framework, context and results (see Appendix provided).

Clearly a strong working relationship is essential when the company is in crises, facing major transitions in strategy and leadership. Crisis tends to generate more demands on the organization and more work for leadership – creating a pressing need for all hands on deck as, clearly, there is much work to be done. These strong relationships are also helpful, even essential, during times of transition – a new CEO, a new Chair, a sale, an acquisition. They can also be helpful in steady-state circumstances. As many Chairs and CEOs noted: it is best to build a strong relationship before you need it.

Comments on this report are welcome and should be directed to elise.walton@gmail.com.

VIII. ABOUT THE AUTHOR, THE CHAIRMEN'S FORUM, AND THE MILLSTEIN CENTER

ABOUT THE AUTHOR

Elise Walton, PhD, is a consultant and researcher specializing in corporate governance, strategic organization design and executive leadership. Elise was formerly a senior partner at Oliver Wyman (formerly Mercer Delta, LLC and Delta Group Consulting) for over 18 years, where she led major projects and served as the Corporate Governance practice leader. Current and past clients include AES, AT&T, AXA-Equitable, Comverse Technologies, Fannie Mae, Ford, Hewlett Packard, Internap, MeadWestvaco, Merck, Miller Brewing Company, Lucent, The Pine Street Inn, Save the Children, Tyco, TXU, Unilever and Xerox. Elise works with the Conference Board and the National Association of Corporate Directors on organizational and governance topics. Recent projects have focused on organization design, board assessment, board design, CEO evaluation, CEO succession, compensation design, and executive leadership development. Elise received a B.A. from Bowdoin College, an M.A. from Columbia University Teachers College and a PhD jointly from Harvard University and Harvard Business School. She has taught in the executive MBA programs of Columbia University and the NYU Stern School.

About the Millstein Center for Corporate Governance and Performance at the Yale School of Management

The Millstein Center for Corporate Governance and Performance at the Yale School of Management is a leading global resource for testing, challenging and advancing the premise that corporations should and can serve society. The Center pursues its mission by convening events; sponsoring empirical research; generating policy briefings; building market capacity by developing training, databases and institutions; and teaching and student interaction.

As one of Yale School of Management's Centers, the Millstein Center is a focal point for faculty, students, businesspeople, and policy makers interested in corporate governance and performance. The Millstein Center is designed to ensure that the production of knowledge adheres to the highest standards of rigor and at the same time is driven by the imperative of practical and societal impact. Through a variety of activities, the Millstein Center creates meaningful connections between academic endeavor and real-world application.

About the Chairmen's Forum

Founded on February 26, 2008, the Chairmen's Forum is an organization comprised of non-executive Chairs of corporate boards whose companies are incorporated and stocks are traded on exchanges in the United States and Canada. Participants meet for the purpose of addressing steps that enhance the accountability of corporations to owners, discussing matters of common interest, promoting deeper understanding of independent board leadership practices and reaching out to the wider market on effective practices of board chairmanship. The Chairmen's Forum intends to help create an international hub of national and regional forums of non-executive Chairs to encourage peer exchanges worldwide.

The Forum regularly prepares briefing documents that explore important, timely issues and practical solutions in the field of corporate governance. Past briefings have explored global trends in corporate governance, practices that improve board independence, the role of the non-executive board Chair, among others. The Forum sponsors research and briefings to add to the public discourse on corporate governance among a broad group of stakeholders, and hopes that increased transparency and knowledge will help restore market trust. Briefings are reviewed by Stephen Davis, Executive Director of the Millstein Center, and a small group of advisors; however, briefings represent the research and opinion of the author, not those of the Center or the University.

The founding Chairman is Harry Pearce, Non-Executive Chairman of Nortel Networks Corporation and Chairman of MDU Resources Group, Inc. For more information visit: http://millstein.som.yale.edu/chairmensforum.shtml or contact Stephen Davis, Executive Director, Millstein Center, at +1-203-432-9689, stephen.m.davis@yale.edu

RELATIONSHIP BASICS ASSESSMENT

	Do we have…?	Lo	Med	Hi
RELATIONSHIP	Frequent and Open Communications			
	Reciprocity and Consideration			
	Close but Not Personal			
	Key Inter-personal Qualities			
FRAMEWORK	Shared Commitment to Corporate Well-being			
	Defined But Adaptable Roles			
	Effective Processes			
	Leadership Transition Strategy			
CONTEXT	A Competent and Supportive Board			
	A Strong and Accessible Management Team			
	The Right Culture			
RESULTS	Distinct Value of the Chair Role			
	Better Outcomes through Joint Decision Processes			
	More Engagement and Commitment			