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CHIEF EXECUTIVE REVIEW

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The relationship between the CEO and the board is key to the overall functioning of any organisation. When that relationship works well, and everyone is aligned, an organisation will generally be able to find solutions to the many challenges that invariably occur in any organisation.

The board and the CEO should put in place and commit to a reciprocal agreement based on a set of principles that will be central to their work together. The following are proposed principles that would work for most organisations:

Values: commitment to uphold the agreed values of the organisation

Transparency: commitment to full transparency on all matters

Risk management: commitment to manage the organisation's risks and foster a risk culture

Stakeholder engagement: commitment to employees, clients, shareholders, wider stakeholders

Ethics: commitment to behave at all times according to generally held core ethical principles such as beneficence (do good), nonmaleficence (do not harm), and justice (fairness).

The agreed principles should then flow into a discussion and agreement to have certain feedback mechanisms in place to get two-way input on how the CEO/board relationship is working. I personally believe it is important that the feedback goes two ways. The board gives feedback on the CEO and the CEO gives feedback on the board. The feedback should be given at least twice yearly. In putting together a feedback questionnaire, the CEO and the board should agree which areas are important to focus on. Once the feedback has been collated, they should identify what needs restoring and the tools and timeline for doing so.

The board should have their own clarity of what kind of CEO is needed for the organisation in its current and future evolution. All organisations have different life cycles and each cycle often needs a different CEO to effectively lead it. It is rare to find a CEO agile and experienced enough to function in any cycle. An unexpected major crisis often sees CEOs out of their depth with a board who either won't or can't see that the CEO needs substantial support or sometimes needs changing to a different kind of CEO. Keeping a CEO in place who is struggling with a rapidly changing situation to the one they were hired for, is a real risk to any organisation. The risk is twofold, the CEO can have a breakdown, leaving the organisation with a gap in their executive management, or they can make the wrong, or no decisions, leaving the organisation drifting in the unknown. Either situation is untenable and the responsibility of the board, not the CEO. Timely moves by the board to address the situation is absolutely key. There will always be early warning signs that should be responded to from the inside before outsiders do.

Early warning signs will be:

- Shift in CEO behaviour such as turning away from the board's guidance, not listening to feedback, not being interested in other people's thoughts.
- Becoming defensive and not offering clear explanations. This can also come with limiting the necessary transparency to the board, leading to everything becoming opaque.
- Disengagement is another red flag for the board to keep an eye on. Feedback loops reduce or disappear; clients, employees and other stakeholder engagements reduce; the CEO defers questions to other

staff, and so on. This will lead to the management team losing focus and board meetings becoming difficult to get clarity in for the board.

Other early signs of a troubled CEO include signs of stress and increased external activity that does not form part of their KPIs, such as serving on other boards, attending or speaking at conferences, and so on. If a CEO spends more than 20–25% of their time not serving their organisation, then that organisation will suffer.

There can be a variety of reasons why the behaviour of a CEO shifts from what the board expects. The agenda of the CEO might have changed with business, home, or health pressures. It can also be a shift in mindset from the effect of having power where they might lose what it took to achieve it.

For listed companies, experiencing an interest from activist investors should be a clear warning sign that something is not right one way or the other. As soon as this happens, the board should investigate why activist investors would be interested, and act to rectify any of the specific concerns aired.

Sometimes a CEO can manage to shift their leadership to conform with the success of the business and create great results. This requires a person who is able to change with the business cycle. Business cycles are inherently unpredictable, and it can be very difficult to see clearly what happens next. CEOs and boards will always have to accept a level of unknown unknowns and create a culture and environment that is agile enough to survive when unknown unknowns happen. That culture should fit around the agreed principles to safeguard anything going too wrong.

Questions to ask when reviewing the CEO:

Personal

- Is the CEO a person of integrity?
- Does the CEO have the respect of their peers?
- Does the CEO set and display high standards?
- Does the CEO have a high level of personal drive and energy?
- Does the CEO say and think “we” rather than “I”?
- Does the CEO demonstrate respect for others?

How does the CEO gather knowledge?

- Shows enthusiasm for what we do
- Is curious about what needs to be done
- Considers what is right for the organisation

How does the CEO handle decisions?

- Develops action plans
- Takes responsibility for decisions taken
- Takes responsibility for communicating
- Has a focus on opportunities
- Demonstrates perseverance
- Stands by own words and standards
- Is approachable to talk about concerns

Leadership

- Does the CEO understand the state of the organisation and the business?
- Does the CEO lead the organisation towards the vision using the mission and values to do so?
- Does the CEO understand and communicate the purpose of the organisation?
- Does the CEO have the right agenda for the organisation?
- Does the CEO exhibit the right leadership skills, style, and practices fitting the current and future needs of the organisation?
- Does the CEO clearly define, communicate, and implement the overall strategy of the organisation?
- Is the CEO supervising, directing, controlling, and managing the organisation's affairs and operations in a sound manner?
- Is the CEO clarifying roles and responsibilities, setting priorities and timelines?
- Is the CEO analysing issues and creating new approaches to them?
- Does the CEO actively promote corporate social responsibility and sustainability within the organisation?

Management

- Does the CEO ensure the organisation has succession planning and talent development?
- Is the CEO actively building the culture of the organisation and inspiring and motivating employees?
- Is the CEO able to lead change in a constructive and efficient manner?
- Does the CEO seek different and innovative approaches to resolve issues and meet opportunities?
- Does the CEO show a high level of resilience, remaining calm and stable when facing difficulties and pressure?

Board relations

- Does the CEO work with the board in developing the organisation's vision, mission, and strategy?
- Does the CEO work with the board in developing appropriate policies and procedures?
- Is the information the CEO provides to the board complete, adequate, and timely?
- Does the information provided about the organisation's performance, risks, and opportunities enable the board to make decisions?
- Does the CEO adhere to the agreed principles of working with the board?
- Does the CEO maintain a good working relationship with the chair and members of the board?

Financials

- Does the CEO have a good understanding of the organisation's financial health?
- Is the CEO supported by a qualified chief financial officer?
- Does the CEO ensure that the organisation's financial records are accurate?

The following questions are for the CEO to use for feedback to the board:

- Do the board members understand the state of our organisation and the business?
- Does the board have an appropriate agenda for the success of the organisation?
- Does the board support the workings of the organisation through exhibiting the right practices?
- Does the board operate based on values and agreed principles?

At the end, it is worthwhile leaving a space for indication of areas of weakness or areas needing improvement both for the CEO and for the board.