How Board Chairs Can Build a Connection with the CEO Based on Trust

The relationship between a board chair and CEO is more important than ever. Unlike in the past, U.S. boards are increasingly separating the chair and CEO roles — a practice that is more common in Europe. Among the S&P 500, almost 60 percent of companies now have separate board chairs and CEOs, and 39 percent have appointed an independent board chair (as stipulated by either the NYSE or Nasdaq rules for independence).

That trend is noteworthy, as many shareholders believe that separating the chair and CEO roles increases the board's independence and leads to more effective oversight. But it also creates a new dynamic between the board chair and CEO. That relationship must be close enough to foster strong direct collaboration but not so close that it undermines the board's independence.

What distinguishes an effective chair-CEO relationship? Based on our experience, discussions with dozens of CEOs and chairs, and a survey of nearly 200 directors and 30 CEOs of S&P 500 companies, we identified trust as most important factor. Moreover, our research and experience points to specific steps that chairs can take to build trust with a CEO.

Get aligned on CEO compensation

Building trust begins even before the CEO is offered the job. Directors need to align their views on CEO pay in advance of negotiations, including the board's view of healthy pay practices for the CEO and senior management team and how those numbers should look relative to peer group benchmarks. This is particularly relevant given that CEOs are often brought in with an explicit mandate to improve the share price — and some candidates may have views on how to structure compensation.

In these discussions, the chair should be forthright about the board's expectations and understand what the CEO wants in the compensation package. For some CEOs, absolute compensation over time based on stock performance is most important; for others, pay relative to peers is the more significant metric.

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A compensation adviser can be crucial during this process. Most compensation consultants have access to benchmarking data, but the best go beyond this, to advise and challenge the compensation committee and help align the board's compensation philosophy with that of potential candidates.

At a leading global hospitality company we worked with, the previous CEO had been removed for performance reasons, warranting a large buyout (due to the accelerated vesting of stock options that had been previously awarded). Among finalists for the CEO role, the board explicitly asked each about their compensation philosophy. The candidate that ultimately got the offer agreed to a contract clause that limited the vesting of stock options to one year if he were to be removed for performance. Those open and constructive conversations underscored the board's values and helped get the new CEO placed with a strong working relationship that has lasted more than 10 years.

Give clear, manageable feedback as part of the evaluation process

CEO performance evaluations — when handled without a fair process grounded in integrity — can be worse than no evaluation at all, leaving the CEO feeling confused and unsupported and without clear expectations. Conversely, a transparent and effective performance evaluation entails an open dialogue about the management team's achievements, challenges and needed support.

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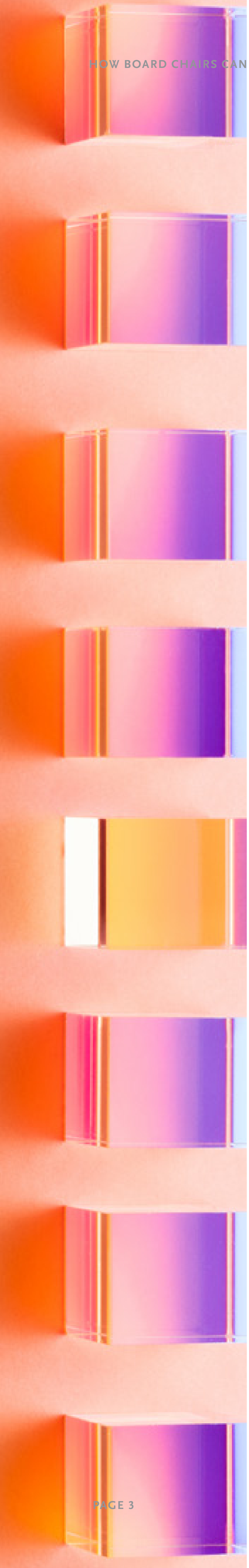

"The chair drafts the review and sends it to the board, so that we can get the most important messages agreed to," former PayPal Chair John Donahoe told us. "It was helpful to narrow it down to a few key themes that both the CEO and board can stay focused on over the year. This also helped form a basis of trust for when new issues or topics arise during the year. We noted them but tried to stay focused on the key themes for the year."

The CEO has a role as well — remaining open to feedback from the chair and building relationships with individual directors to understand what matters to each. "Critical skills for an effective CEO are the ability to listen, an eagerness to learn and consider advice, and the wisdom to know what advice to take and not take," Bose Chair Bob Maresca said.

Take the fear factor out of executive sessions

At some point on most board agendas is an executive session, when the CEO goes back to their office or a nearby conference room to wait it out while the directors continue their discussion. Understandably, these sessions can make CEOs uncomfortable because they're not in the room to hear what's on directors' minds. Worse, the director-only sessions are typically unstructured, so they often run long, leading to anxiety among the CEO who's not in the room.

Board chairs can build trust and reduce some of this anxiety by delivering director feedback to the CEO quickly, honestly and empathetically. In our research, 43% of CEOs and 39% of directors said an important way to build trust for the chair to effectively — and immediately — communicate the board's feedback to the CEO following executive sessions.

"I prioritize conveying feedback in a constructive way, synthesizing what the board members want to see, are concerned about and want to encourage," said eBay Chair Paul Pressler. "Allow the CEO time to digest the information so you can have a robust, open and honest conversation. Asking the CEO to translate the feedback ensures clarity and understanding."

During an executive session, chairs should keep the discussion on track, focusing on the most relevant issues and avoid veering off-topic. To that end, the chair must be able to read the room and manage the clock. Because executive sessions are typically at the end of board meetings, some chairs use travel logistics as a forcing factor to finish the meeting on schedule.

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Pay attention to board composition and chemistry

Boards build trust with the CEO when they hold themselves accountable for their own performance, including having the right skills and experience in the boardroom.

As part of the board succession processes, the chair and CEO, along with the governance committee, should agree on the skills and capabilities that will complement those of existing directors.

Critically, the chair also needs to consider board culture and meeting dynamics as well. “We spend a lot of time on director selection and composition — the skills we need of course, but also the chemistry of the boardroom,” MetLife Chair Glenn Hubbard said. “Trust gets back to selection. Be careful about selecting the board and the chair to make sure you don’t have a personality that is going to be a clash with the CEO. That’s not going to work irrespective of how smart they are.”

Ongoing discussions between the chair and CEO about the pulse of the board can identify issues that may need to be resolved. In some cases, directors who are disruptive or underperforming may need to transition out. That is an uncomfortable situation, but if the chair handles it appropriately — based on periodic director assessments to clarify expectations, along with forthright, candid conversations when someone is falling short of those expectations — can actually reinforce trust with the CEO.

“The board’s role in overseeing the company and its long-term strategy is critical,” said The Hartford CEO and Chairman Christopher Swift. “For that reason, having in place strong board evaluation and director succession processes is paramount. The Hartford’s lead director, Trevor Fetter, and I work closely together to ensure we are not only addressing the issues of today but planning for the future.”

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Support the CEO in times of adversity

The CEO and chair will inevitably face challenges and crises. In those situations, boards get nervous and can sometimes give conflicting or unhelpful guidance or become more critical and unsupportive. The chair's ability to hold the room and ensure that board discussions remain productive can have a big impact on how the CEO — and the company overall — responds to the crisis.

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"An important role the board chair plays in difficult times is absorbing the board's questions and concerns in a manner that allows the CEO to stay focused on the business," said Paypal ex-chair Donahoe, who emphasized his commitment to serving as a steadying force for both the CEO and management team. "If the CEO is concerned about what directors are thinking, it can be a distraction and the CEO may be less effective — either feeling uncertain or insecure — and, as a board chair, that's the last thing you want to see."

In both good times and bad, chairs can build trust by previewing information for the CEO and avoiding situations where they could feel ambushed. "Trust is so important, and it does build over time," Bose CEO Lila Snyder said. "We have a not-so-silent agreement about 'no surprises.' That level of transparency helps to build and maintain the trust over time. We also talk a lot and that helps. Frequency is important. We're not playing catch up. When I do have issues or need advice, I'm not spending 30 minutes catching Bob up to where we are."

Trust between the chair and CEO can have a multiplier effect. A difficult relationship can distract the CEO, erode the board and leadership team's confidence in them, and ultimately have real consequences on the company's performance. "The leadership team and company more broadly feed off of the board to a large extent," MetLife CEO Michel Khalaf said. "If there is misalignment or insufficient alignment, that's very difficult to conceal."

Conversely, a transparent, trust-based relationship between the board chair and CEO — developed over time in the five areas we identified — can unleash the full potential of the board, CEO and entire leadership team.

This article was adapted from [Five Moments That Make or Break a CEO-Board Chair Relationship] published in Harvard Business Review online *Aug. 23, 2024.*

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Authors

George Anderson (Boston)
James M. Citrin (Stamford)
Cassandra Frangos (Boston)
Zachary Morfin (San Francisco)